REAL ESTATE APPRAISALS

EARING

BEFORE THE

SUBCOMMITTEE ON
GENERAL OVERSIGHT, INVESTIGATIONS,
AND THE RESOLUTION OF
FAILED FINANCIAL INSTITUTIONS

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

MARCH 1, 1994

Printed for the use of the Committee on Banking, Finance and Urban Affairs

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REAL ESTATE APPRAISALS

TUESDAY, MARCH 1, 1994

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON GENERAL OVERSIGHT, INVESTIGATIONS, AND THE RESOLUTION OF FAILED FINANCIAL INSTITUTIONS, COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:06 a.m., in room 2222, Rayburn House Office Building, Hon. Floyd H. Flake [chairman of the subcommittee] presiding.

Present: Chairman Flake and Representative Roth.

Also present: Representatives Orton and Deutsch.

Chairman FLAKE. Good morning. We would like to call the hearing for the Subcommittee on General Oversight, Investigations, and the Resolution of Failed Financial Institutions to order.

At this time, we would like to welcome all of those who are my colleagues to share with us in this subcommittee hearing, and thank our witnesses who have already submitted prepared statements, and you may this morning give summaries.

We would like for you, if possible, to complete summaries within 10 minutes and then we will give opportunity for the asking of questions.

And we are happy to have you to share—good morning, Mr. Orton.

We would also like to introduce for the record—Congressman Chuck Schumer who wanted to be at this hearing will not be able to come—so I would ask unanimous consent to have his statement placed in the record and for written questions to be submitted through the subcommittee.

[The prepared statement of Mr. Schumer can be found in the appendix.]

Chairman FLAKE. Today's hearing will focus on the impact of raising from $100,000 to $250,000 the threshold at and below which real estate-related financial transactions do not require licensed or certified appraisals as outlined under Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, which is commonly called FIRREA. Before I begin my opening statement, I would like to express my appreciation to Congressman Chuck Schumer for requesting the hearing so that we might review these issues involved, what is concerned as it relates to the proposed threshold increase, and to identify possible consequences of such an increase on the taxpayer, the consumers, and the financial institutions.

Today's hearing is important in that we will receive testimony from the regulators who are proposing this rule, from the States who have implemented the guidelines set forth in FIRREA, from the bankers who are trying to meet their communities' credit needs in a safe and sound manner, and from the GAO who is about to complete the first of two congressionally mandated studies of appraisals in connection with the real estate-related financial transactions which fall below the threshold level.

It is worth noting that 1993 was the first year that Title XI was fully implemented and the related Federal and State regulatory programs were in complete operation. There were many important provisions contained in the proposed rule. However, the driving force of this proposal which has also been the object of controversy and concern is the threshold increase to $250,000.

As you may be aware, the objectives of the proposal are to reduce the regulatory burden while requiring Title XI appraisals when such appraisals enhance the safety and soundness of financial institutions or otherwise further public policy. This proposed rule would exempt the requirement from a Title XI appraisal on about 94 percent of all one- to four-family residential real estate transactions thereby increasing the potential for loss.

While it is argued that a significant portion of the residential mortgages will be sold to the secondary market in which case a licensed or certified appraisal will be required to qualify to purchase Fannie Mae or Freddie Mac, I am not sure if we should be in a situation where private industry and GSEs in requiring Title XI appraisals are responsible for sound institutional operations but the regulators are not. Since the secondary market does not have a threshold level, many borrowers and portfolio lenders will see little benefit from this proposal. And for the real property that falls below the de minimis level and will not be sold to the secondary market, an appraisal, especially for low-income borrowers, will probably be the only validation of the purchase price the consumer will have access to. Also, retention of such property in an institution's portfolio could adversely affect a financial institution's liquidity and its nonconformance with the quality standards of secondary mortgages.

Thus, the requirement for a licensed or certified appraisal not only assures the lender that the property will adequately stand for collateralization against the loan, the appraisal can serve as a consumer protection measure. One should not disengage consumer protection from safety and soundness.

The key is to find the right balance between effective regulation and shortcuts in the process, between sound business practices and flexibility. We need something that makes sense for the regulators, for banks and thrifts, and also for the consumers.

One of the public policy interests that Title XI was to achieve was for real estate appraisals to be "performed in writing, in accordance with uniform standards by individuals whose competency has been demonstrated and whose professional conduct will be subject to effective supervision."

The proposed rule before us is significant. The medium sale price for residential property is about $96,000. And the average small business loan size is about $155,000. A commercial loan borrower

might enjoy lower upfront costs if the Title XI appraisal is not required.

However, lending institutions can face increased risks of loss absent an appraisal by a qualified, independent appraiser. A home is probably the largest and most important purchase that a consumer will make, so while an appraisal is not an exact science, a person should have to meet certain educational and experiential criteria to determine the value of a piece of property and should be under some of sort of State supervision.

Some of the questions before us are: What standards will evaluators function under? Will they give an independent and objective assessment of the value of property? Could they be influenced by how much the bank wants to lend? What threshold level is appropriate? And is raising the threshold contrary to congressional intent of establishing uniform appraisal standards in 1989?

At this time, I would like to recognize my colleague, Mr. Bill Orton, who will at this time make his opening statement.

Mr. ORTON. Thank you, Mr. Chairman.

As a member of the full committee, but not of this subcommittee, I thank you for allowing me to join you in this hearing. This is an area that I am very interested in and I think will in fact have fairly significant ramifications to consumers as well as lenders throughout the country and in my district.

I certainly recognize and understand the issues which you have raised in your statement and the concerns which you have, particularly for consumer protection. I think those are valid concerns and certainly look forward to the panel addressing those concerns that you have raised.

I look at it also in—from a somewhat different light with regard to meaningful regulatory relief and in light of the fact that values have increased substantially since the time that the de minimis requirement was set. It appears that there may be many loans which previously would have been under the de minimis value and when that value was originally set, which now may be exceeding it, requiring the additional costs of appraisals.

Oftentimes, appraisals on fairly de minimis value loans serve little purpose except for increasing costs to either the lender or the borrower, typically passed on to the borrower, so I have a concern for the consumers, and so forth, the costs which are incurred as a result of our de minimis standards.

And so I believe that the proposal that has been submitted is in fact consistent with our intent of regulatory relief action on financial institutions. I believe that as you indicated, many of the loans on real estate below the $250,000 level would in fact be residential real estate. And I share some of the concerns which you have raised and in fact it has been proposed by some that we may want to leave the de minimis value for residential loans at $100,000 or perhaps $150,000 while raising the de minimis value for commercial loans.

It seems much more imperative on commercial loans, and the costs, the additional costs incurred, because typically the commercial loan includes more than just the replacement value or the typical appraisal of a residential property, because you have to be considering cash-flows and capitalization factors. And the costs of

commercial loan appraisals are typically much higher than residential loan appraisals. And so it may make even more sense increasing the de minimis value on commercial loans while we may decide that it might not be appropriate to increase that value on residential loans. So I would hope that the panel could respond as to how you feel if in fact there were a different or a bifurcated de minimis standard for either residential and commercial property.

I believe that—and, in fact, I am still looking at it, but I believe that it may in fact be appropriate to raise the de minimis value even on residential to $250,000. There are two factors I am considering with regard to the safety and soundness; it seems clear to me that residential loans with value below $250,000 were not the problems or causes of the savings and loan collapse. I think there were very few assets in that category in the—that were nonperforming or valued below the amount of the loan when we had to resolve these failed institutions. And I would appreciate perhaps if Mr. Inserra could respond to that issue.

It seems that safety and soundness would not be impaired, at least from everything I can judge, by raising that de minimis value on residential property. So that would leave us then the consumer protection issues, that the chairman has cited, to consider.

Finally, I think it is clear that banks could continue, financial institutions could continue to require appraisals for loans that they felt were necessary to underwrite. And clearly the requirements of Fannie Mae, Freddie Mac, VA, and FHA, I think all of those would continue to require appraisals, and so if they are being sold on the secondary market, there is going to be an appraisal anyway.

I think most of the residential loans for the consumers that the chairman has concern about would fall in this category. So I would appreciate perhaps if you could respond to that issue as well.

I am going to listen as long as I can, but I have a meeting at the White House at 11 o'clock I have to run to as well. So I will look forward to reading the responses and the testimony provided here and would ask the chairman if I might also have leave, to submit questions in writing for the panel.

Chairman FLAKE. Thank you very much.

By unanimous consent we will do so.

[The information referred to can be found in the appendix.]

Chairman FLAKE. Thank you for coming and for sharing and certainly it is my hope that as we move through the process we will have heard enough from both sides of this issue to come to some reasonable conclusions by the time full committee consideration may be given to which direction we may go.

Thank you very much, Mr. Orton.

At this time, we would like to welcome our first panel.

Ms. Helen Hsing is the Associate Director for the Financial Institutions and Market Issues at the General Accounting Office; Ms. Susan Krause is the Senior Deputy Comptroller for Bank Supervision Policy at the Office of Comptroller of the Currency; John Downey is the Deputy Director of Regional Operations for the Office of Thrift Supervision; Thomas Inserra is the Chief Appraiser for the Resolution Trust Corporation; and Diana L. Garmus is the Acting Chairperson for the Appraisal Subcommittee of the Federal Financial Institutions Examination Council.

We would like for you to begin in the order that I have called you, and if you can give us your summary in approximately 10 minutes, and then we will come back at the conclusion of all of the testimonies and have questions from the members who are here.

Thank you very much.

Ms. Hsing.

HELEN HSING, ASSOCIATE DIRECTOR, FINANCIAL INSTITUTIONS AND MARKETS ISSUES, GENERAL ACCOUNTING OFFICE

Ms. HSING. Mr. Chairman and Mr. Orton, I am pleased to be here today to discuss the de minimis appraisal threshold, the dollar level regulatory agencies have set for exempting real estate transactions of federally insured banks, many financial institutions from appraisal requirements.

In my testimony today, I will discuss the applicable appraisal legislation and requirements, the proposed change in the threshold, and the arguments for and against the proposal. I will also provide our preliminary observations for—from our current study.

Mr. Chairman, with your permission, I would like to submit my full statement for the record and summarize my remarks.

Past history is important for understanding the controversy surrounding the appraisal threshold. In 1986, the House Committee on Government Operations issued a report concluding that faulty appraisals were contributing to Federal losses in deposit insurance and guaranteed home mortgage programs, and that a broad range of corrective measures were needed by the appraisal industry, the Federal financial institution regulators, and the States.

In response, Congress enacted real estate appraisal reform provisions in the Financial Institutions Reform, Recovery and Enforcement Act of 1989. Title XI of the act required real estate appraisals for all federally related real estate related transactions. It mandated appraisals for many real estate transactions made by federally insured banks, thrifts, and credit unions.

Title XI designated the standards developed by the private sector Appraisal Foundation as the minimum requirements for real estate appraisals. It required appraisals to be written which complied with uniform standards and be done by individuals who have demonstrated competence and whose professional conduct is subject to effective supervision. Title XI also required States to develop and implement programs for licensing and certifying appraisers through their professional appraisal organizations.

Since the enactment of Title XI, the regulators have increased the threshold exempting transactions from appraisals several times. Most recently, in June 1993, all the regulators except for the National Credit Union Administration proposed a rule change that, among other things, would increase the threshold to $250,000. NCUA has maintained its threshold at $50,000.

Effectively, the increased threshold would permit exempted real estate to have its market value determined through the less formal evaluations. In the back of our statement there are two tables. Table 1 details current appraisal requirements by type and size of loan. The second table details how the proposed change would affect appraisal requirements. The regulators contend their July

1993 proposed rule change would reduce regulatory burden on banks resulting from Title XI appraisal requirements, improve credit availability, and serve Federal financial and public policy interest without threatening the safety and soundness of financial institutions.

However, this rule change has elicited contentious public reaction, most of it centered around increasing the threshold from $100,000 to $250,000. The regulators have received thousands of letters in response to their first request for comment. Most of the letters in opposition have come from individual appraisers. Others have come from State Appraisal Boards, the Consumer Federation of America, the Mortgage Insurance Companies of America, the National Association of Realtors, the Appraisal Institute, the Appraisal Foundation, and the Appraisal Standards Board.

Supporting the threshold increase were banks, State Banking Association, the American Bankers Association, and the Independent Bankers Association. Opponents of the threshold increase argue that there would be increased risk to the deposit insurance funds, adverse effect on the safety and soundness of financial institutions, and adverse impact on consumers.

Supporters of the proposal contend otherwise. They have argued that regardless of thresholds, banks would get appraisals for most residential loans because the secondary mortgage market requires them. The few thrifts that submitted comment letters were divided in their support.

The regulators submitted supplemental information for the public record and reopened the comment period in November 1993, and they have told us that they are reviewing and analyzing the public comments received thus far. The Housing and Community Development Act of 1992 required GAO to do two studies on the appraisal threshold. I would like to share our preliminary observations on our work to date.

First, we are not sure whether, as regulators contend, the benefits outweigh the risks. GAO's preliminary work indicates that there are quality—the qualitative differences between appraisals and evaluations are unknown. The effect on the deposit insurance funds is very difficult to determine because of the many variables affecting safety and soundness. The extent of exempted transactions could vary widely by institution and little is understood about the impact on consumers.

First, I would like to address this issue about differences between appraisals and evaluations. Both appraisals and evaluations are intended to be estimates of market value. However, appraisals differ from evaluations in terms of standards and requirements.

For example, State licensed or certified appraisers are required by law to meet minimum training and job experience requirements and pass a test. The regulators guidance or evaluations does not specify education or training requirements.

The Appraisal Standards Board has issued standards governing appraisals from the Uniform Standards of Professional Appraisal Practice or better known as USPAP. Federal regulations require that appraisals conform to these standards; however, they don't apply to evaluations. In comparing USPAPs guidance with the reg-

ulators' guidance, we found several areas covered by USPAP standards which are not covered by the regulators' guidance.

Our work to date also suggests that the regulators guidance is being interpreted inconsistently by financial institutions. Our visits to 14 banks and thrifts suggest there is no standard interpretation of what an evaluation is.

Some banks we visited viewed the regulators guidance as requiring an assessment similar to appraisals. However, others viewed guidance as permitting an assessment far different.

The risk that the proposed threshold poses to the deposit insurance funds is unknown. In an earlier report we found that empirical information to assess the safety and soundness implication of cases was lacking. And our current work to date confirms that this is still the case.

Regulators do not have comprehensive data on loss rates by size of loan for both residential and commercial real estate because they believe collecting the data would be excessively burdensome to the industry. Even with some data, however, the effect of raising the threshold on the deposit insurance funds may be extremely difficult to determine and the data needed to make such a determination may not be feasible to gather.

For example, to assess the risk of loss to the deposit insurance funds, information is needed on a number of factors, including the extent to which evaluations rather than appraisals would be used for loans between $100,000 to $250,000; what the qualitative difference between appraisals and evaluations are and the extent to which appraisals affect real estate loan defaults. Further complicating this determination is the fact that there are many variables which affect the safety and soundness of financial institutions.

Regulators believe that a threshold increase would pose little risk to the deposit insurance funds because many residential loans are sold to the secondary market which requires appraisals. Their data showed over 60 percent of loans originated between 1990 through 1992 were sold to Federal credit agencies and federally sponsored mortgage pools that required appraisals on all loans purchased.

Our discussions with bankers and thrift operators suggest that the effect of the $250,000 threshold could vary widely depending on the composition of the institution's loan portfolio. Specifically, the $250,000 threshold could virtually exempt all small or rural thrifts from needing an appraisal for their real estate related loans.

For example, a multibillion dollar financial institution told us that about two-thirds of its real estate loan portfolio consisted of loans for amounts of $250,000 or less. The proposed threshold may result in cost savings to consumers if lenders use evaluations rather than appraisals in making loan decisions and pass directly to consumers the lower cost of the evaluations.

Little information is available on appraisal costs and we attempted in the course of our job to collect some information. Our interviews with financial institutions yielded some insight into cost.

For example, appraisal fees at 11 of the 14 institutions we visited as of February 1994, ranged from $350 to $7,500 for commercial

real estate and fees—and from $150 to $450 for residential real estate. In contrast, the fees being charged for evaluations were lower than the appraisal fees and a range not as extreme. The average cost of evaluations varied from zero to $175 for both residential and commercial real estate.

Although there may be cost saving accruing to the consumer as a result of having an evaluation performed, it is not clear what the consumer may lose in terms of consumer confidence and access to information. We should keep in mind here that regardless of the threshold, consumers still are able to obtain an appraisal if they are willing to pay for it. But currently, limited information exists on whether consumers may be adversely affected by having an evaluation done and what their legal recourse is for evaluations performed unprofessionally or negligently.

In conclusion, the regulators plan to issue a rule that would, among other things, increase the appraisal exemption threshold to $250,000. Much controversy surrounds this rule change. The opponents and supporters have both raised some good arguments for their respective positions.

However, our preliminary work indicates there is little empirical evidence addressing some key issues. Unknown is to what extent financial institutions would use the less formal evaluations rather than appraisals and what qualitative difference is there.

The risks on the deposit insurance funds are very difficult to assess and perhaps may not be quantifiable. Evaluations, if there is no qualitative difference, holds promise to some reduced costs if they are indeed passed on to the borrowers. We are in the process of completing our initial assessment and will report shortly.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions that you or the subcommittee may have.

Chairman FLAKE. Thank you very much, Ms. Hsing.

[The prepared statement of Ms. Hsing can be found in the appendix.]

Chairman FLAKE. And at this time, we will hear from Ms. Krause.

STATEMENT OF SUSAN KRAUSE, SENIOR DEPUTY COMPTROLLER FOR BANK SUPERVISION POLICY, OFFICE OF THE COMPTROLLER OF THE CURRENCY

Ms. KRAUSE. Thank you, Mr. Chairman.

I appreciate the opportunity to discuss the recent proposal by Federal bank and thrift regulators that would, among other things, increase the threshold for required appraisals on real estate lending from loans of $100,000 to loans of $250,000.

I have a written statement that details this and other significant change in the real estate regulation that we have proposed. As you requested, in the interest of time, I will submit that written statement for the record and this morning I will very briefly discuss why we propose to raise the appraisal threshold.

There are three major reasons: One, doing so, in our judgment, will not affect safety and soundness; two, doing so will simplify a complex regulatory arrangement; and three, in our judgment, doing so would benefit consumers.

These three reasons are related. First, safety and soundness. Title XI of the Financial Institutions Reform, Recovery and Enforcement Act requires that the Federal financial institutions regula-tory agencies determine which real estate transactions require appraisals.

My written statement describes the long and twisting journey whereby we arrived at a threshold of $100,000. Despite our best efforts, it soon became apparent that a $100,000 level was needlessly burdensome, it captures residential and farm loans; loans that did not cause the problems the law sought to address along with large real estate construction loans, the kind of loans that caused thrifts to fail and banks to have problems in the 1980's.

Raising the threshold to $250,000 would have no material effect on safety and soundness. A $250,000 threshold would still capture large real estate construction loans but would lift much of the needless burden that a $100,000 threshold imposes on residential and farm lending.

Some have raised the specter of massive loan losses if the threshold is raised. To that, I would note that loss rates are both now and historically, very low for residential mortgages. But more importantly, an appraisal, no matter how accurate, is only of secondary importance in residential real estate lending. The primary feature a bank will look to in making a loan is whether the borrower has the capacity to pay it back.

Second, simplifying regulation. The $100,000 threshold has created a needlessly complex regulatory apparatus that, in some cases, has potentially increased risks to financial institutions. Lenders are confused about how they should interpret and apply the regulation.

Although the present regulation contains numerous exemptions, bankers needlessly order appraisals anyway, even if they think they might be unnecessary, because they are uncertain whether an individual transaction fits within an existing exemption. At the same time, there are reported instances of lenders foregoing real estate collateral and making unsecured loans because the appraisal costs too much, an unintended consequence if there ever was one.

Third, consumer benefits. Raising the threshold would benefit consumers because the cost of ordering an appraisal from a licensed or certified appraiser is passed on in full to the borrower. If an appraisal is not needed, this cost is a waste. I also expect that raising the threshold would result in quicker loan processing and more available credit.

I want to stress the banks will continue to be required to evaluate real estate collateral on loans below the threshold amount in accordance with safe and sound banking principles which are laid out in the OCC Evaluation and Appraisal Guidelines. Such an evaluation must reflect an unbiased assessment of the value of real estate and be prepared by a qualified individual. And evaluators must demonstrate competency, expertise, independence, and the ability to render a high-quality written report in order to be considered qualified. OCC examiners check for compliance with this policy, reviewing the quality of evaluations when examining the real estate functions in national banks.

In closing, Mr. Chairman, I would like to note that the public reaction to our proposal has been phenomenal. We have received more than 5,000 comment letters from individuals, bankers, appraisers, and others. For the reasons I have discussed, we believe the proposal would benefit the public and the banking industry without increasing risks in the system.

However, we take our responsibility to consider all comments seriously. Let me assure you that we are working diligently to weigh safety and soundness concerns against the desire to reduce regulatory burden in our consideration of the final rule.

Thank you.

I would welcome your questions.

[The prepared statement of Ms. Krause can be found in the appendix.]

Chairman FLAKE. Thank you very much, Ms. Krause.

Mr. John Downey, Deputy Director of OTS.

STATEMENT OF JOHN DOWNEY, DEPUTY DIRECTOR FOR REGIONAL OPERATIONS, OFFICE OF THRIFT SUPERVISION

Mr. DOWNEY. Mr. Chairman, thank you for inviting OTS to testify today. I would ask that my testimony in full be entered into the record. I would try to keep my comments brief.

Chairman FLAKE. Thank you.

Mr. DOWNEY. As you know, Mr. Chairman, well before the passage of FIRREA, the Federal Home Loan Bank Board, the OTS's predecessor, had appraisal guidelines in place. The Bank Board's regulatory memorandum, R–41, set forth technical criteria for conducting appraisals that have became appraisal industry standards.

Nevertheless, during the 1980's, faulty and fraudulent appraisals on large acquisition development and construction projects and on large commercial properties contributed to failure of many thrift institutions.

Congress' first legislative response to these problems in the thrift industry was contained in the Competitive Equality Banking Act of 1987. Among other things, CEBA required the Bank Board to move its appraisal requirements from informal guidance to formal regulations governing appraisals.

In response to this mandate, the Bank Board replaced its R–41 series with a new regulation and policy statement that contained the prior technical criteria as well as guidelines that emphasized the development and implementation of prudent appraisal policies and procedures by savings associations and their subsidiaries. Two years later in 1989, Title XI of FIRREA was enacted to further protect Federal financial and public policy interests in real estate-related transactions.

FIRREA required that real estate appraisals used in connection with federally related transactions be written and performed in accordance with uniform standards by individuals whose competency had been demonstrated and whose professional conduct is subject to effective supervision.

Title XI of FIRREA required all of the Federal financial institutions regulatory agencies to promulgate new regulations establishing real estate appraisal standards. On March 10, 1993, OTS and the other bank regulatory agencies issued the interagency policy

statement on credit availability in response to a Presidential initiative on credit availability.

The agencies recognized in the last several years the cumulative effect of certain regulations and practices had become overly burdensome. In some cases, burdensome rules may have stifled lending, particularly to small- and medium-sized businesses. The agencies developed the March 1993 program to ensure that regulatory policies and practices did not needlessly obstruct the free flow of credit. That program included reducing the burden of the appraisal rules and improving the climate for real estate based lending.

As we stated in the March 1993 release, the real estate appraisals that we now require may not always add to the safety and soundness of the credit decision or may prove so expensive as to make a sound small- or medium-sized business loan uneconomical. On June 4, 1993, the agencies published a joint notice of proposed rulemaking that contained amendments to the appraisal regulation that would streamline the current rule and provide more flexibility to facilitate credit availability.

Of the changes proposed, we believe that three will primarily assist small- and medium-sized businesses. These changes are the proposed expansion of the abundance-of-caution exemption; the proposed business loan exemption; and the proposed increase to $250,000 of the de minimis threshold.

First, the proposal would allow savings and loan associations to apply the abundance-of-caution exemption to a broader range of transactions in which real estate is taken as additional collateral for a loan that is well supported by income or other collateral of the borrower. Under our current rule, this exemption is available only for transactions in which the terms of the loan would not be more favorable if the lien on the real estate were taken.

Second, the proposed business loan exemption would allow a savings association to take real estate as security in connection with a loan of $1 million or less to a small- or medium-sized business without getting an appraisal where the primary source of repayment for the loan does not depend on the sale of or rental income from the real estate. We expect that this exemption would benefit small- to medium-sized business borrowers primarily by reducing the cost and time to obtain real estate-secured business loans.

Finally, the proposed increase to $250,000 as the threshold at which Title XI appraisals are not required. It would also reduce the cost and time for the majority of small- to medium-sized businesses to obtain business loans since the largest number of real estate-secured business loans are less than $250,000.

Mr. Chairman, the OTS has received approximately 3,700 comment letters in response to our proposed regulation. The majority, over 90 percent of the comments were from appraisers who expressed concern that increasing the de minimis threshold would adversely affect safety and soundness and would eliminate the consumer protection afforded by appraisals. The agencies have not yet prepared a final rule and it is therefore premature for me to attempt to describe what it would contain.

One of our objectives in the proposed amendments, however, was to facilitate credit availability without adversely affecting safety and soundness. One of the ways that we at OTS proposed to meet

this objective was by only allowing well-run thrifts, those not in a troubled condition, to avail themselves of the proposed new de minimis threshold.

Under the proposal, those thrifts that are considered problem institutions, and that are in troubled condition, would continue to be required to use the current threshold. Our data indicates that most of the thrift loans that would be exempt by the change in the threshold, would be single-family mortgages. Data reported on the thrift financial reports of the quarter ending September 30, 1993, indicated that 87 percent of the real estate loans held by thrifts are secured by single-family homes.

We feel that should the final rule be promulgated as proposed, most of the single-family mortgage loans, which constitute the majority of thrift lending, would continue to be supported by the equivalent of Title XI appraisals because of the requirement of the secondary mortgage market.

Approximately, 70 percent of the single-family mortgages are purchased by secondary mortgage market entities. Because the majority of exempt loans will be single-family, residential mortgages, and because of the historic low-loss rate of such loans, we believe that increasing the threshold presents very little additional risk.

For example, for the year ending December 31, 1992, the loan-loss rate for single-family mortgages, most of which were originated prior to the present appraisal requirement, was 0.22 percent; that is, for every $100 invested in a single-family mortgage, thrifts, on average, lost only 22 cents. In contrast, the loan-loss rate on commercial real estate loans for the same period, was 2.3 percent, over 10 times higher.

Finally, most loans that would be exempt by provisions in the proposed legislation, would still be required to be supported by sound evaluations of the real estate collateral. As with an appraisal, an evaluation is a written estimate of value prepared by an individual who has rendered an unbiased estimate of value and who has real estate-related training or experience relative to the type of property being reviewed.

Unlike an appraiser, however, the individual need not be licensed or certified by a State agency and the evaluation document need not comply with all the detailed requirements that an appraisal must adhere to. For the same reasons that we do not believe that our proposed changes to the appraisal rule will adversely affect safety and soundness, we do not believe assertions that the proposed changes could adversely affect consumer protection provided by appraisals.

As mentioned earlier, the majority of the single-family home mortgage loans are originated for sale in the secondary mortgage market, and these home loans would still have the equivalent of Title XI appraisals. In addition, consumers may obtain an appraisal of the property they are contracting to purchase regardless of whether the institution that is financing the purchase decides to obtain one.

In conclusion, OTS will continue to maintain our emphasis on the important role that management has in overseeing the quality and independence of appraisals and evaluations prepared for thrifts. The proposed changes to the appraisal regulation would not

preclude thrift institutions from contracting with licensed or certified appraisers who perform evaluations or from obtaining an appraisal for the exempt transaction where the institution believes it is prudent.

Mr. Chairman, we are mindful of our responsibility to maintain the safety and soundness of thrift institutions while facilitating credit availability. We believe that the agency's proposed changes in the appraisal regulations would maintain that balance.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Downey can be found in the appendix.]

Chairman FLAKE. Thank you very much, Mr. Downey.

We will hear from Mr. Inserra who is the Chief Appraiser for the RTC.

STATEMENT OF THOMAS J. INSERRA, CHIEF APPRAISER, RESOLUTION TRUST CORPORATION

Mr. INSERRA. Thank you. Good morning, Mr. Chairman and members of the subcommittee. I appreciate the opportunity to testify on behalf of the Resolution Trust Corporation.

Let me begin by stating that the RTC does not have any position regarding the regulation being discussed today. Nor does the corporation have a position on the general issue of raising the de minimis level at or below which a licensed or certified appraisal is not required on real estate residential and commercial transactions.

The subcommittee has asked us to comment on our own experience at the RTC, and I am pleased to do so.

At the outset, let me state that the RTC is a unique Federal entity, quite separate and distinct from the Federal regulators of financial institutions. The RTC takes over bankrupt savings and loans which hold problem assets. In order to properly manage and dispose of the problematic assets that the RTC inherits, the corporation has set up fairly rigid procedures. RTC procedures may or may not be appropriate for regulatory agencies of viable financial institutions.

RTC's existing appraisal regulations have been in place for approximately 18 months. At this point in time, we do not foresee making any changes to these policies. But let me generally describe our policies.

Presently, for assets between $10,000 and $100,000 in value, the RTC recommends an appraisal. For assets between $100,000 and $2.5 million, the RTC requires one appraisal from a properly licensed and certified appraiser and that appraisal must pass an initial compliance checklist. And for assets above $2.5 million, the RTC requires either two appraisals or one appraisal which has been reviewed by a second appraiser.

The RTC generally requires new appraisals every 24 months for REO property and every 12 months for nonperforming loans. The RTC does not seek a change in its existing appraisal threshold level for a variety of reasons.

The most notable reasons include those which I will now summarize: First, on April 8, 1993, the Honorable Lloyd Bentsen, and interim CEO, Roger C. Altman, adopted a written nine-point plan

which called for various management reforms and an improvement in RTC's internal controls. The RTC believes that appraisal reports independently prepared by a properly licensed appraiser serve as an effective internal control.

Second, the RTC believes that it has received other benefits from appraisal reports. Some of these include: Appraisals help the RTC to establish an appropriate list price for the asset which we sell; by providing copies of our appraisal reports to prospective purchasers, marketing times and due-diligence periods are shortened, thus reducing RTC holding costs; licensing also provides the RTC with an important enforcement mechanism for the RTC to make criminal referrals of appraisers; and finally, appraisals help the RTC to ensure that it maximizes sales revenues.

The RTC has awarded more than 100,000 appraisal contracts and paid total appraisal-related fees of approximately $170 million since 1989. In 1989 and 1990, the RTC did experience significant appraisal delays and a notable increase in appraisal fees.

However, at this time, the RTC is simply not experiencing either of these problems. In fact, an informal survey of RTC's staff appraisers throughout the country, indicates that appraisal fees for residential property have remained relatively flat, while fees for commercial real estate have notably declined over the past 12 to 18 months.

The RTC has not commissioned or prepared any formal study on the potential impact to the RTC of this de minimis proposal such as the study which is being conducted by the GAO. However, the RTC has other experiences which it would like to share with the subcommittee.

Regarding securitization, the RTC has been able to raise total funds of nearly $36 billion from the sale of securitized loans since 1991. Of that, $13.5 billion in commercial/multifamily loans were sold, and $22.8 billion in residentially related loans were sold.

From those sales, the RTC has learned that the lack of an appraisal might impact our ability to market the loan on the secondary market or might impact the RTC's ability to minimize loan losses. Typically, the lack of an appraisal might preclude the sale of that loan, result in the need to discount the price of that loan, or necessitate an increase in the amount of money RTC places in reserve for that loan.

Regarding the average loan size at the RTC, as of December 31, 1993, RTC's inventory consisted of $8.9 billion in performing and nonperforming single-family mortgage loans, with an average loan size of just over $25,000. This is much lower than the 1993 estimated industrywide savings and loan average loan size of $78,000. RTC's performing and nonperforming commercial real estate mortgages total $17.7 billion and have an average loan size of $532,000.

Regarding the topic of evaluations in lieu of appraisals: The proposal to increase the appraisal de minimis to $250,000 also would allow for evaluations in lieu of appraisals. However, as stated earlier, RTC's current policies do not allow for evaluations. And at this time, the RTC has no plans to utilize evaluations in lieu of appraisals.

Let me conclude by reiterating that the RTC is a unique Federal entity. Its appraisal policies have been effective for the manage-

ment and disposition of problem assets from troubled thrifts. RTC procedures may or may not be appropriate for regulatory agencies of viable financial institutions.

I would be pleased to respond to any questions from the subcommittee.

Thank you.

[The prepared statement of Mr. Inserra can be found in the appendix.]

Chairman FLAKE. Thank you very much.

At this time, we will hear from Ms. Diana L. Garmus, who is the Acting Chairperson for the Appraisal Subcommittee of the Federal Financial Institutions Examination Council.

You may proceed.

STATEMENT OF DIANA L. GARMUS, ACTING CHAIR, APPRAISAL SUBCOMMITTEE, FEDERAL FINANCIAL INSTITUTIONS, EXAMINATION COUNCIL

Ms. GARMUS. Thank you, Mr. Chairman.

You have received a written submission from the Appraisal Subcommittee for the record complete with two exhibits. My comments this morning are a somewhat briefer rendition of those.

I am pleased to appear before you today in my capacity as Acting Chairperson of the Appraisal Subcommittee of the Federal Financial Institutions Examination Council as you examine the effect of raising the appraisal threshold from $100,000 to $250,000. The Appraisal Subcommittee is comprised of six members; each is a career employee designated by the heads of the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, for which I personally am the designee; the National Credit Union Administration, and the Department of Housing and Urban Development.

As you know, the Housing and Community Development Act of 1992 amended Title XI of FIRREA and provided the Federal banking regulatory agencies with the authority to establish an appraisal threshold. Because the statutory authority for regulatory change rests with these agencies and not with the Appraisal Subcommittee, it is more appropriate for them to provide testimony on the proposed amendments to their appraisal regulations.

I will focus my testimony on the implementation of Title XI, particularly as it occurred throughout 1993. This implementation is moving successfully forward, notwithstanding the debate on the threshold level.

In 1993, significant progress was made in implementing a national program of appraisal regulation envisioned by Title XI; 1993 was the first year that Title XI was fully operational and related Federal and State regulatory programs were in full operation. Actions taken by the Appraisal Subcommittee, the States and their appraiser regulatory agencies, the Appraisal Foundation and its Appraiser Qualifications and Appraiser Standards Boards, and the Federal banking agencies, all have contributed to this progress.

The Appraisal Subcommittee's role in implementing the national program of appraisal regulation under Title XI is divided into four major responsibilities: One of the four is to maintain a national

registry of State certified and licensed appraisers. In 1993, the subcommittee received registry submissions from all 50 States, plus the District of Columbia, Guam, the Commonwealth of the Northern Mariana Islands, the Virgin Islands, and Puerto Rico. By the end of 1993, more than 80,000 real estate appraisers were either licensed or certified by the States and carried on the registry.

Another of the subcommittee's major responsibilities is to monitor the policy, practices, and procedures established by the States regarding the certification and licensing of appraisers, and to determine whether those policies, practices, and procedures are consistent with Title XI.

To help ensure the State agencies perform their duties in a consistent manner, the subcommittee published its policy statements regarding State certification and licensing of real estate appraisers in August. This document combined and updated the prior revised guidelines and our subcommittee communications with the States. The policy statements were designed to contribute to greater consistency in the implementation and interpretation of Title XI.

In addition, subcommittee staff visited 18 States during 1993 in a continuation of its field review of State appraiser regulatory programs. This brought the total number of States visited to 39 since implementation of Title XI. We have actually completed 3 more this year, bringing us to 42.

All the States have rules in place requiring applicants to meet at least the Qualifications Board-established minimum standards for certified appraisers and to pass a Qualifications Board-endorsed examination. In general, the subcommittee has continued to find States to be in compliance with the intent of Title XI.

The activities of the State agencies have, for the most part, appeared fair, thoughtful, and dedicated to Title XI's successful implementation. While there has been speculation on the effect of the agencies' regulations on the number of certified or licensed appraisers and State regulatory programs, the subcommittee, at this time, has no empirical evidence that the amendments proposed by the agencies will have any significant effect on the number of licensed or certified appraisers or the performance of the State agencies.

Through our review and monitoring process, the subcommittee has determined that no serious nationwide shortage of real estate appraisers has occurred. Localized shortages, particularly in nonurban areas may exist but none have been brought to our attention. If necessary, however, we may readily address any identified shortages through our temporary waiver process pursuant to Title XI. To date, we have received only one temporary waiver request, which was from the Northern Mariana Islands. On December 30, 1992, with the concurrence of the Federal Financial Institutions Examination Council, the subcommittee granted the waiver request and ordered relief on an interim basis. On February 17 of last year, the subcommittee issued a final order granting the Northern Mariana Islands temporary waiver relief until February 28, yesterday.

The islands proceeded to provide for the education and examinations required for its full compliance with Title XI and have not requested an extension of the temporary waiver relief. Further relief does not appear to be necessary.

In 1993, the subcommittee also performed its statutory responsibilities to monitor and review the practices, procedures, activities and organization of the Appraisal Foundation and to fund appropriate portions of the Foundation's expenses that relate to the activities of the Standards Board, the Qualifications Board, and the membership activities of its board of trustees.

Of particular interest to the Appraisal Subcommittee and perhaps to your subcommittee, Mr. Chairman, is the Standards Board's continuing work to clarify and perfect the Uniform Standards of Professional Appraisal Practice.

The Standards Board has worked to clarify the use of the departure provision and the acceptability and content of limited appraisal reports. We understand that the Standards Board intends to make it clear that licensed and certified appraisers may perform a wide range of appraisal assignments in full compliance with the uniform standards, including the kinds of evaluations required by the Federal banking agencies for real estate-related financial transactions that are exempt from the agencies' appraisal regulations. The Standards Board intends to issue its statement on the use of departure and limited appraisal reports in time for inclusion in the July 1994 midyear supplement to the uniform standards.

As part of our fourth and final responsibility, which is to monitor the appraisal standards for federally related transactions established by the Federal banking agencies, the subcommittee continued to work closely with the agencies and to comment on their 1993 regulatory proposals. As you have heard today, four of the agencies, the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, and the Federal Reserve, have proposed to amend their appraisal regulation to, among other things, increase the uniform threshold level from $100,000 to $250,000.

The agencies also propose to clarify the phrase "real estate collateral taken in abundance of caution" and to establish a $1 million regulatory exemption for business loans that do not rely on the real property as a means of repayment.

The proposal would also eliminate the agencies' added appraisal requirements above the Uniform Standards of Professional Appraisal Practice and would permit some use of the uniform standards' departure provision. In general, the Federal banking agencies would expect that appraisals in federally related transactions would be performed in accordance with the uniform standards.

The subcommittee submitted written comments to the four agencies on the proposed amendments in June and provided them with an update on the implementation of Title XI. As you know, the agencies have yet to take action on the proposals.

To facilitate communications and to bring all of the entities we monitor together, the subcommittee sponsored its third conference for State appraiser regulators in November. Representatives from 44 States attended. While temporary practice and reciprocity are still issues in the States, the primary interest has now shifted to the issue of enforcement. All of the States have incorporated the Uniform Standards of Professional Appraisal Practice into their State statutes or regulations, and many States have established and have begun to initiate disciplinary proceeding against apprais-

ers who appear to violate the uniform standards. Some State agencies have already revoked or suspended licenses or certifications of appraisers who have violated the uniform standards. To date, more than 20 appraiser names have been removed from the registry by the subcommittee upon the request of the State agencies.

To ensure that the various regulatory entities keep each other apprised of enforcement actions taken against appraisers, the subcommittee asked the Federal banking agencies and State agencies to share communications concerning referrals of State or certified or licensed appraisers who have violated the uniform standards. Through these communications, the subcommittee hopes to strengthen coordination and cooperation among the Federal banking agencies, the State agencies, and the subcommittee.

During 1994, the subcommittee will continue its monitoring responsibilities under Title XI by closely reviewing the Federal banking agencies' appraisal regulations, the activities of the Appraisal Foundation and its board, the Appraisal Standards Board, and the Appraiser Qualifications Board and the certification and licensing programs of the States.

We in the subcommittee will continue our pivotal role in ensuring that real estate appraisals used in federally related transactions are performed in accordance with uniform standards by appraisers certified or licensed by the States.

Thank you.

[The prepared statement of Ms. Garmus can be found in the appendix.]

Chairman FLAKE. Thank you very much, Ms. Garmus.

I think all of our witnesses have done extremely well in terms of working with us on time.

I would like to start the questioning. Just a general question first.

In terms of the full committee, at some point it will work on its Housing bill. One of the concerns that has already been raised here is whether or not the full committee ought to set some uniform standards. If that is not done prior to such time as we do the Housing bill, is it within the scope of this body, particularly OTS and OCC, to work toward developing some uniform standards that the banks can fully understand and work toward achieving whatever goals have been set prior to any legislative process, or will that be a matter that will ultimately have to be dealt with legislatively?

Ms. KRAUSE. I am not sure I understand the question Mr. Chairman.

Chairman FLAKE. It is my understanding that many banks really don't understand the regulations that you are proposing now. Will there be some means by which the standards will be uniform enough that they will understand what it is you expect to be accomplished by virtue of the fact that you are raising the threshold number or will there be a necessity for legislative responsibility to do that?

Ms. KRAUSE. If the proposal regarding the threshold is finalized as proposed, the standards for the appraisal for loans above the threshold I think are quite clear, based on the uniform professional standards as well as our regulation. But what goes on below the threshold, I am assuming is what you are asking about.

We now have guidance for what we call an evaluation, a word we use to distinguish it from a Title XI appraisal that a bank has to conduct for a loan that meets certain of the exemptions, including falling below the threshold. That guidance does need revision and all the agencies agree on that. Regardless of how we finalize the rule, we will have some problems with banks not understanding and examiners not understanding in a consistent fashion what is expected; and that is something that staff is already working on and will turn their attention to immediately when we finalize the rule. And we will try to have a revision done as soon as possible of that guidance.

Chairman FLAKE. Ms. Hsing, it looks like you have a response.

Ms. HSING. As I mentioned in my testimony, our preliminary work in this area indicates that there are inconsistencies out there in terms of banks' and thrifts' interpretation of the regulators guidance, and it seems to us that this is something that does require work by the regulators.

Chairman FLAKE. And is this rolled in from the legislative side of this process in that, or can it be done exclusively by the regulatory bodies?

Ms. HSING. I think the regulators do have the authority to begin work on revising that guidance. I think Congress will need to take a look at what they have put together and monitor the implementation of the guidance before determining whether legislative action is required.

Chairman FLAKE. I hear the words "uniform performance standards" while at the same time, if I am correct, and if I am incorrect, you may correct me, while at the same time, I am hearing discussions about creating the essence of a new industry that will be called evaluators whose level in training, in my opinion, is not consistent with what has been the traditional training standards for appraisers who have already developed some uniform performance standards.

I am trying to find my way through how we create a whole new body of persons who assume responsibility for doing something that traditionally has been done by persons trained, certified, and credentialed to do it, and now I am not sure I see a credentialing process to those who will be the evaluators.

How do we assure that in changing the process and moving from an appraisal-based process to an evaluator-based process, that we don't have a tilt that, in many cases, can cause some disruptions and problems within the industry?

Mr. DOWNEY. Mr. Chairman, whether it be an appraisal or an evaluation, we put the burden of determining the value of real estate and the collateral on the board of directors and management of the institution, so we look first to make sure that they have in place the policies and procedures necessary to ensure that in this particular case the evaluations are done properly by people who have experience, training, and what have you, and that it is done fair, objectively, and in the best interests of the institution and the borrower.

We also, as the regulators, we visit these institutions and we will review the process that is used in the institutions for evaluations. We have very limited guidance out there right now, as Ms. Krause

pointed out, and as GAO has said, there are probably various degrees of what an evaluation should be and we need to clarify that area.

I think once it is put in place and we give the institutions, the industry a better understanding of how those evaluations should be conducted, by what type of people, and set the criteria, I think we will be able to do it without any legislative initiative.

Chairman FLAKE. Let me just be clear, the management of the boards of the various banks will basically look for individuals who will become the evaluators; you will then have persons who will go in and evaluate the banks based upon how the financial institution has defined the role of its individual—its particular evaluator by some standard that you will set. Are you then suggesting that you will prescribe some kind of curriculum or some kind of program that will set the mechanism that you will measure it by?

I don't quite see yet how we put this body of evaluators in place and you have a measurable standard that you can apply to each institution when the evaluators are not functioning within the historical standard that was in place for those who were certified appraisers.

Mr. DOWNEY. I don't think it will be necessary to set the same standards across the board for evaluators as you would for appraisers and go through that process. I think the knowledge of real estate markets and values of property, and what have you, there are individuals who, whether they be former appraisers or bank employees, who have a great knowledge and are able to do that same type of evaluation of properties, so I think the institutions will pick people that have the same characteristics and professionalism and integrity, and what have you, that the certified or licensed appraiser has today.

Chairman FLAKE. And those characteristics would guarantee that they would have the capability of doing just and fair evaluations so that communities that have historically not been looked at favorably, in many instances, by representative of—of representatives of bank institutions, will have the ability now to look more fairly and more justly to assure that no communities are left out of the process of participation in this great Nation of ours by the virtue of the fact that their communities have been redlined? You can guarantee that?

Mr. DOWNEY. Can I guarantee it, Mr. Chairman?

Ms. GARMUS. Mr. Chairman, if I can add to that?

Chairman FLAKE. You don't have to sign it in blood.

Yes?

Ms. GARMUS. If I can add to that, the Appraisal Subcommittee is encouraging all of the entities it monitors to use licensed and certified appraisers for all appraisal assignments, including those that may be deemed to be evaluations, so in fact qualified individuals may do these things. In addition, the comments I made about the Appraisals Standards Board working to clarify their departure provision and then the agencies picking up on the use of that departure provision, this will allow certified and licensed appraisers to feel free to do evaluations and know that they can complete them within the scope of the uniform standards and not be in violation of anything in those standards. So I think once that is in place

and with the encouragement we give the entities we monitor to use licensed and certified appraisers for evaluations, that we don't need to create a new class of evaluators, we can use the people we already have.

Chairman FLAKE. If then we are using the people we already have, why are we going through this process?

Ms. KRAUSE. We are not going through this process to create a new body of evaluators; we are going through this process to respond to concerns expressed both in the FDIC Improvement Act by the Congress as well as by the administration, to look at regulatory burden and to look at issues of credit availability. In our review, and in our experience, based on those motivations, we have determined that this real estate appraisal regulation is invoked in situations where it is not required for safety and soundness purposes.

At the same time, we do have and we have always had in place, prior to FIRREA Title XI and post-FIRREA Title XI, guidance for banks as to how to evaluate the value of the property they are making mortgage loans on or commercial real estate loans on. And as Ms. Garmus said, we encourage the appraisal industry to consider themselves suitable for doing the evaluations, and we are pleased to see the developments that are underway in the standards that facilitate this.

There is no reason a bank can't opt to use a licensed or certified appraiser to do an evaluation. But what we would be providing them and what we are providing them now under the existing threshold is the flexibility to conduct the assessment of the value of the property in whatever way it seems most suitable.

We are dealing with loans that can be very small and very simple and we do not feel that under the $100,000 level, that the sophisticated training brought about by licensed or certified appraisers is necessary to evaluate the collateral on a mortgage loan where the collateral is really the second line of defense to the bank for having the loan paid back.

If I could, I would also like to comment on your question to Mr. Downey about redlining. That is a serious concern to us as regulators. However, we have to ask ourselves if it is worthwhile requiring an appraisal, which is typically more costly than an internal evaluation, which the consumer pays for in full, in order to meet that concern. We feel that it may be a rather imperfect way to meet that concern.

We have a very active Fair Lending Examination Program. And, as you know, we are in the middle of a Community Reinvestment Act revision, both aimed at making sure communities are well-served and fairly served in our fair lending examinations in the last year, based on the more recent and more comprehensive mortgage loan data, the issue of an internal evaluation versus an appraisal, has not been an issue, although we have found some other problems. But we certainly will, if we increase the appraisal threshold, make our fair lending examiners even more sensitive to looking at that as a potential issue.

Thus far, our experience with the $100,000 threshold, indicates it has not been an issue for fair lending and I would just like to reiterate that it is a very important issue to us. We question

whether this is the vehicle to achieve our goals in the fair lending and community reinvestment area.

Chairman FLAKE. I am still in the process of trying to develop an opinion, and so my questions are primarily so that we can get both sides of this issue into the record so that we can have a real objective evaluation and see what makes good sense. And I would seriously hope that we are not creating a whole new industry that is substandard to the existing industry. And I don't know why that seems to be lingering in my mind, and you have not assured me that that is not the case. But perhaps as we move along in the process we will have some answers.

For RTC, have any surveys been conducted comparing losses on residential property versus commercial loans?

Mr. INSERRA. When you use the term "survey," Mr. Chairman, in my testimony I referenced surveys of our appraisers that we employ around the country. That survey that I referenced was specifically in regard to appraisal fees and whether or not fees have been increasing and whether or not our field offices have been experiencing delays on appraisals. The only other survey that I am aware of that has been conducted was another informal survey conducted by myself, where we polled the same group of people, the RTC staff appraisers in our field offices, to get their feeling for what they thought might be the impact that appraisals may or may not have had on the losses. But as far as actual statistics, that is your question with regard to a breakdown of residential or commercial, the RTC has prepared no formal survey statistics at this time.

Chairman FLAKE. OK.

Several other questions and then we will let you go.

The appraisal regulations, which we get into FIRREA, what is the opinion of the body as it relates whether they have strengthened or weakened the banking industry in general?

Ms. KRAUSE. I will be happy to answer that.

Chairman FLAKE. She likes that question.

Ms. KRAUSE. I think that these provisions have definitely strengthened the banking industry. We have clear improvement in the real estate portfolios of institutions since FIRREA was passed and this is based on a number of factors, but there was a need to establish an apparatus that provided for well-trained, licensed appraisers, particularly for those loans where fraudulent and faulty appraisals had been a significant problem, primarily in the commercial real estate area.

Chairman FLAKE. OK.

Is there a sense of have we been able for GAO to answer that question? What if we do nothing? What if the threshold remains the same; what is the impact of changing to $250,000 or staying as it is currently at $100,000?

Ms. HSING. Well, as I mentioned in my testimony, Mr. Chairman, there is really little empirical data on this issue. Most of the information that we have gathered thus far point out that most of the loans under the $250,000 threshold are real estate-related loans; primarily residential real estate.

However, as I pointed out, there is no information on loss data by threshold, and so I think there is really little information on loss

data by threshold for the threshold under $100,000, and below $250,000.

As the regulators mentioned, they have based their justification for the proposal threshold increase on a number of factors. Part of it, a survey of the opinions of their senior examiners and also on the basis of just general lending data that they have on the activities below $250,000.

Chairman FLAKE. Are you in the process of data collection now or——

Ms. HSING. Well, we are in the process of trying to complete data collection. We still have some outstanding data requests, and we are also trying to complete our analysis as well.

Chairman FLAKE. And that will ultimately be submitted to the agencies that are involved in the process of making the ultimate determination?

Ms. HSING. Correct.

Chairman FLAKE. OK. Let me thank all of you. I think you have been good witnesses. Your information is obviously helpful to us as we continue to move along in the process. And we will submit from myself or members of the subcommittee questions in writing at a later date if there are any that have not been asked here that we need additional information. Thank you very much.

We would like to call panel number 2. Persons on panel number 2 are Mr. Douglas Brown, Mr. Robert Hughes, Jr., and Mr. Dominick Pompeo.

Good morning, gentlemen. We are happy to welcome you to this second panel of the Subcommittee on Oversight and Investigations.

Mr. Douglas Brown is the president of the Appraisal Institute; Mr. Robert Hughes, Jr., is the president of the National Society of Real Estate Appraisers, and is also representing CAPPS; and Mr. Dominick S. Pompeo, who is the chairman of the New York State Real Estate Licensing and Certification Board.

Each of you may, if you wish, summarize your testimony and then prepare for questions. We will accept your full testimony and submit that for the record. I suppose we should do 10-minute summaries. The House is in session, and we will probably have some calls for votes. So we will try to move through this process with your summaries and then whatever questions we may have.

We would like to start with you, Mr. Brown. You may proceed now.

STATEMENT OF DOUGLAS C. BROWN, PRESIDENT, APPRAISAL INSTITUTE

Mr. BROWN. Thank you, Mr. Chairman and members of the subcommittee. As you stated, I am the 1994 president of the Appraisal Institute and a practicing real estate appraiser in Columbia, South Carolina. I will summarize, but I do ask that our complete statement be included in the record.

Chairman FLAKE. Thank you. We will.

Mr. BROWN. Mr. Chairman, the Appraisal Institute applauds your initiative in conducting today's hearing. This hearing brings before your subcommittee a very important public policy matter.

Title XI of FIRREA established a system to provide safeguards against abuses and resulting bank and thrift failures of the 1980's.

The appraisal requirements helped establish accountability, reliability, and uniformity in the appraisal profession by encouraging appraisers to obtain an entry-level State license or certification and to perform appraisals in accordance with uniform industry standards.

These license or certification requirements are now in all 50 States. Coincidentally, since the implementation of Title XI, lending institutions and the secondary mortgage market have experienced record profits and record mortgage origination activity. Many groups and industries publicly support the existing appraisal requirements.

Despite this rebound, the bank regulatory agencies proposed on June 4, 1993, to increase the appraisal threshold from $100,000 to $250,000. Based on public data, a $250,000 threshold would exclude 94 percent of the total number of one- to four-family residential loans from the appraisal regulation and nearly 85 percent of the total dollar value of these types of loans. On loans to small businesses, the Federal Reserve concluded that the average small business loan in 1992 dollars was $155,237, well below a $250,000 threshold.

Mr. Chairman, the banking industry may need regulatory relief, but a $250,000 threshold will not provide regulatory relief and is not a panacea for the problems which financial institutions may be experiencing.

First of all, appraisal fees have not risen since implementation of Title XI. Instead, evidence shows that appraisal fees, which are only a small fraction of the total cost associated with the lending process, have actually declined. Further, there is not a shortage of appraisers. Today you have heard testimony that nearly 85,000 appraisers are licensed and certified throughout the country. By the way, the Appraisal Institute represents approximately half of that number.

Second, a $250,000 threshold will be—will establish valuation requirements on the Federal level that are inconsistent with the secondary market and State valuation requirements. This occurs because the secondary markets in many States require the use of licensed and certified appraisers in transactions below a $250,000 threshold. If a higher threshold were instituted, regulatory confusion, not regulatory relief, would occur.

Third, contrary to what some might assume, the $250,000 threshold proposal would result in a more complicated agency evaluation requirement. The agencies maintain that transactions below the threshold would have to conform to their evaluation guidelines.

Digressing slightly from what I have here, let me point out that I am sure all of you have just heard an explanation of what an evaluation is. It certainly sounds to me like an appraisal. The only difference that I see is that an evaluation would be performed by someone who is not licensed, someone who is not certified, someone who has no qualifications that have been stated so far, and someone who is not accountable to anyone at this point.

Because guidelines—these guidelines are not subject to the appraisal industry standards. There is no consensus on what information is necessary to satisfy these evaluation guidelines. A higher threshold would exacerbate the regulatory burden involving all—

involving loans of all types by allowing for more ill-defined evaluations and fewer well-defined appraisals.

Now I might also digress to say that we certainly have seen, if you will accept this example, a sign of what evaluations may do for us. These are unregulated value estimates, and that example is the $500 billion savings and loan bailout.

Mr. Chairman, the Appraisal Institute does not stand before you merely seeking status quo. As the Nation's preeminent real estate appraiser organization, we pride ourselves on developing positive solutions. The Appraisal Institute believes a solution exists which would provide true regulatory relief and provide benefits to lenders and taxpayers.

In fact, Mr. Chairman, the debate and confusion surrounding the threshold could be solved instantaneously if the agencies took one simple step: Eliminate the threshold and allow appraisers to perform appraisals in accordance with the Departure Provision of the Uniform Standards of Professional Appraisal Practice.

The Departure Provision recognizes that uniform appraisal standards are essential in each valuation. Yet, all the reporting requirements of USPAP may not be necessary for each transaction. Thus, limited reports could be provided in appropriate circumstances. The rules governing this procedure are already in existence, and the Appraisal Standards Board will publish a further directive this month.

Proper implementation of the Departure Provision will result in the following:

First, financial institutions could reduce their direct cost while receiving the specific information they need to make decisions.

Appraisers would be able to provide their services on a more efficient and cost-effective manner.

Consistent State and Federal valuation requirements would reduce confusion and inconsistencies.

And safety and soundness and consumer protection concerns would be met.

The Appraisal Institute has long supported proper implementation of the Departure Provision. In meetings with agencies and interested parties such as the American Bankers Association, we have reached a consensus regarding the need for utilization of this provision.

The Departure Provision is one of the elements of the Appraisal Institute's comprehensive regulatory relief agenda which we presented last year to Congress and the agencies. Our regulatory relief agenda, designed to ease the availability of credit while maintaining sound underwriting standards, include clarification of the Agency's abundance of caution exemption and elimination of duplicative appraisal standards in the current regulations.

Elements of this agenda were submitted to the agencies in a joint letter by the Appraisal Institute and the Savings and Community Bankers of America outlining common regulatory goals.

As we discuss solutions to current issues, we cannot overlook the problems associated with the $250,000 proposal.

Congress granted the agencies the authority to set a threshold only if the agency determines in writing that such threshold level does not represent a threat to the safety and soundness of financial

institutions. Surveys and comments from regulatory personnel expose the fact that a $250,000 threshold does indeed represent a threat to the safety and soundness.

In response to a 1993 questionnaire, OCC senior bank supervisory personnel cited safety and soundness threats which could be imposed by a $250,000 appraisal threshold. Fifteen of the twenty personnel stated that banks under their supervision had failed or had significant losses within the last 5 years because of inadequate appraisals, and a number of losses occurred on loans below $250,000.

A 1993 FDIC survey of its senior supervisory staff revealed safety and soundness concerns associated with a higher threshold. The FDIC's Boston region pointed out that most of the banks in New England experienced significant loan losses. That region cited general appraiser-related deficiencies as a contributing factor in virtually all of them.

These problems occurred at all dollar ranges.

The FDIC's Memphis region discovered that weak appraisal practices were major contributing factors to the failure of numerous financial institutions. When asked about the impact of a $250,000 threshold, the Regional Director stated: "In our smaller banks we would be disappointed to see a return to the extremely poor one-page internal appraisals which were prevalent in past years on small—under $250,000—commercial real estate loans."

OTS's senior thrift supervisory personnel, in response to a 1993 survey, cited serious safety and soundness concerns regarding the increased threshold. OTS staff in all regions of the country pointed to losses that occurred from deficient appraisal practices for loans below $250,000 and even below $100,000.

The agencies have proposed a $250,000 threshold without sufficient supporting data. Congress has mandated the Comptroller General to conduct studies on the adequacy and quality of appraisals below the threshold, taking into account, among other things, the effect on the bank insurance fund and the effect on consumers. We believe the agencies should review these studies before diluting Title XI appraisal requirements.

Numerous government and industry studies cite the lack of data to justify a higher threshold and stress the importance of the appraisal regulation. Recent studies by the Office of Management and Budget, Federal Financial Institutions Examination Council and the GAO found insufficient data to justify a threshold increase, while in 1993 an Independent Bankers Association study identified appraisal regulation as the fourth most necessary and beneficial regulation.

In addition to safety and soundness benefits, the appraisal requirements of Title XI provide a very important protection to our Nation's consumers, particularly those individuals who may be subject to improper lending discrimination. Many transactions, commercial and residential, affected by the higher threshold, would be ones that occur in inner cities and rural areas. For these transactions, many of which are not sold in the secondary market, valuations of property would not be subject to appraisal industry standards or State enforcement.

The Mortgage Lending Task Force Report of the ABA called an accurate appraisal a critical element in the mortgage lending process because it determines the dollar amount of mortgage loan a property will support.

Furthermore, the proposal to raise the appraisal threshold to $250,000 is inconsistent with the lending discrimination initiatives advanced by the agencies. On May 27 last year the regulatory agencies sent a letter to all banks and thrifts addressing the concern that some minority consumers and small business owners are experiencing discrimination by lenders, Federal banks and thrift supervisors. The agencies urged banks and thrift institutions to increase their fair lending activities, including utilizing appraisal standards that preserve safety and soundness criteria while responding to special factors in low- and moderate-income and minority communities.

The Appraisal Institute, whose designated members, candidates, and affiliates are held accountable to a stringent code of professional ethics, is eager to work with the agencies to craft policies and procedures which would assure equal access to mortgage credit for all individuals. We are currently working with secondary market institutions to develop educational programs focusing on innercity appraisal practices.

We intend to do our part to see that fair and safe lending is universally practiced. We hope that the agencies will also do their part.

Thank you, and I will be glad to respond to your questions.

[The prepared statement of Mr. Brown can be found in the appendix.]

Chairman FLAKE. Thank you very much, Mr. Brown.

We have been joined by my colleague, Mr. Peter Deutsch, from Florida, and he has been generous enough to come out of his engagement that he is in the midst of, that he might be able to question you. So I am going to yield to him so that he might raise his questions since he has to be somewhere in about 5 minutes.

Mr. BROWN. Thank you, sir. I will be glad for those questions.

Mr. DEUTSCH. Thank you, Mr. Chairman. I appreciate your indulgence, and I appreciate the work of the subcommittee in terms of this issue.

Mr. Brown, in your prepared testimony you offered an interesting solution to the threshold question. Can you elaborate a little bit more on the Departure Provision?

Mr. BROWN. The Departure Provision, which is currently being addressed and, as I mentioned, we will have a report from the Standards Board of the Foundation, will allow appraisers to issue limited appraisal reports or restricted appraisal reports which will provide much of the information in a summary format that is needed by bankers and other investors while reducing the cost of preparing the appraisal document.

All of the thought process will be there to arrive at an appropriate value conclusion. The reporting process will be somewhat limited.

Mr. DEUTSCH. You touched on this a little bit, but could you further describe the climate before the enactment of FIRREA, and

why appraisal reforms were put in place? And please talk specifically about your group's and your role in the FIRREA legislation.

Mr. BROWN. The Appraisal Institute recognized back in the early to middle 1980's that there was quite a problem with the fact that appraisers at that time were not licensed or regulated in any fashion. We, of course, in the Appraisal Institute had our uniform standards and our code of ethics. But we didn't represent all appraisers in the marketplace.

So we began to work toward the implementation of uniform standards for all appraisers. And we worked toward the development of the Appraisal Foundation, which has now been recognized in Title XI as the group that should appropriately, we think, set both qualifications for appraisers and standards for appraisers to follow.

Mr. DEUTSCH. Could you elaborate on the current licensing issues, and the current certification process, that exists today and any improvements that you would propose?

Mr. BROWN. Well, with the Licensing and Certification Program we recognize was instituted at a sort of beginning level or a minimum level. And it is relatively easy for someone to become licensed and certified. You do have a required number of hours of education that are necessary and quite appropriate.

We feel over time that those requirements will be increased, but they should be increased in keeping with the ability of the marketplace to fill those needs. We think, however, that the Licensing and Certification Program is really the first step toward moving this whole industry into an area of responsibility where we can serve both the banking industry, the lending industry in general and, in particular, consumers.

We are very concerned that consumers be given as much opportunity to have an independent third party opinion of values of their properties as can be available in the marketplace. And if that information is provided by the source of the loan or if that information is provided by some other organization whose motivation is primarily a commission or creating loans for their bank and creating profits for their facility, we are concerned that that independent voice won't be there. And so we want to see the use of licensed and certified appraisers to protect the consumer's interest.

Mr. DEUTSCH. And my final question: The credit crunch has been held out as a reason for the higher threshold. And, obviously, you have the objections to the higher threshold. Can you give your perspective on that particular argument?

Mr. BROWN. Well, I ask you simply to look at things from a practical matter.

I come from, as I mentioned, Columbia, South Carolina, where we, unfortunately, through abuses of the past, successfully overbuilt about everything you could build. And I really question the logic of putting more credit on the street, for, let's say, an office building, if you already have 30 or 40 percent vacancy. So whether you have an appraisal or you don't have an appraisal is not going to necessarily put more money on the street.

I would submit to you, however, that with a sound appraisal of value it may allow the extension of credit where it is warranted even in a market that would appear to be overbuilt. Because some-

one may have a unique product that will fill a particular need. Without that appraisal, you may not have that information available to you.

Mr. DEUTSCH. Thank you very much, Mr. Chairman. If I might, I would like to submit a statement for the record.

Chairman FLAKE. Unanimous consent. Without objection.

Mr. DEUTSCH. Thank you, Mr. Chairman.

Chairman FLAKE. Thank you very much.

At this time we will hear from you, Mr. Hughes.

STATEMENT OF ROBERT L. HUGHES, JR., PRESIDENT, NATIONAL SOCIETY OF REAL ESTATE APPRAISERS, ALSO REPRESENTING CAPPS

Mr. HUGHES. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, my name is Robert Hughes, and I am the current president of the National Society of Real Estate Appraisers. I very much appreciate your offering me the invitation to testify this morning, and I am appearing on behalf of the National Society of Real Estate Appraisers and the Council of Appraisal and Property Professional Societies [CAPPS].

The national society is a predominantly African-American appraisal organization, Mr. Chairman, organized in 1956 with membership in most of our larger urban areas and cities. Because a large percentage of our members live and work in urban centers, we are recognized as being particularly knowledgeable about appraisal and lending practices in these areas.

CAPPS, which has a collective national membership of more than 25,000 appraisers, was established in 1991 by 4 of the country's leading professional appraisal societies to promote public policy and foster appraiser professionalism and integrity.

CAPPS member organizations and their representatives, who are at today's hearing, are the American Society of Appraisers, represented by Mr. Richard Kaufman; the International Right of Way Association; the National Association of Independent Fee Appraisers, represented by Mr. Gene Stuart, the national president; and the National Society of Real Estate Appraisers, which I represent, along with Mr. Darwin Berry, who is our president-elect from New York.

Mr. Chairman, in my brief oral testimony this morning I intend to make the case that the appraiser requirements of Title XI of FIRREA are an appropriate response to the problem of fraudulent and faulty appraisals that contributed extensively to the massive bank and S&L failures of the 1980's and the ongoing taxpayer bailout. I intend to make the case that the pending proposed regulations of the Federal banking agencies would substantially gut major aspects of reform, jeopardizing safety and soundness.

And, once again, I intend to make the case that the proposed exemptions will expose millions of consumers to unscrupulous practices of some lenders and unaccountable nonappraisers, will create needless confusion and complexity in the mortgage and other secured lending mortgage marketplace, and will set back the cause of appraiser professionalism and independence.

I have a more detailed written statement and I would ask your permission to submit it for the record, but in the brief time available to me today let me hit the highlights.

In the wake of the S&L disaster, Congress enacted Title XI of FIRREA to ensure that there would be a State oversight appraisal competency and integrity law. The law was a measure in response to serious problems. It simply requires that appraisals should be done by people with demonstrated qualifications whose conduct is subject to official review and whose work is governed by uniform standards.

For the first time in our history, taxpayers and consumers are beneficiaries of a self-supporting, State-run system that engenders competency, independence, and accountability of appraisers who value property collateralizing hundreds of billions of dollars of federally insured loans.

The proposition is so simple that we don't understand why regulators don't seem to get it. By requiring the use of licensed appraisers it is much less likely that appraisers can be pressured into overvaluing collateral to facilitate unsafe lending practices or to undervalue collateral in support of redlining and other discriminatory loan practices or that incompetent appraisers will undermine prudent underwriting loans.

With all of the debate about exemptions and thresholds and full appraisals versus limited appraisals versus evaluations, we don't understand why there should be any debate as to the value and importance of requiring that licensed or certified appraisers always be used.

A licensed appraiser who is in complicity with a lender who is seeking to deny a loan on the basis of racial or other invidious discrimination would think twice or three times before he low balls the appraisal because if he is licensed he can lose his license and with it his ability to earn a living.

An appraiser is not required to be licensed. History suggests that the appraiser, regrettably, has little to lose by playing ball with the lender. We think the benefits of requiring the use of licensed or certified appraisers are intuitively obvious.

On the other hand, there are no good reasons for the opposite view. Specifically, there is no shortage of licensed or certified appraisers in this country. There is a robust competition for business, ensuring high-quality service and fair pricing.

Title XI provides a simple and quick waiver procedure for any locality that asserts any kind of shortage of qualified licensed or certified appraisers. The proposed regulation would exempt from appraiser requirements millions of transactions, including all residential and commercial loans of $250,000 and less and most business loans of $1 million or less, among other exemptions.

For your information, the $250,000 threshold would exempt appraiser requirements of over 90 percent of all residential home lending transactions. Under the proposal for transactions below the threshold, limited evaluations would be encouraged but not required. And, to reiterate my earlier point, no evaluation of collateral below the threshold would require the use of licensed or certified appraisers.

We think the gaping exemptions are unwise because they are excessively broad on their face and because they are ill-suited for the purpose for which they are apparently intended.

Let me explain what I mean. The regulators have told us that they want to give lenders flexibility not to obtain full appraisals or any appraisals in order to reduce what they deem to be unnecessary transaction costs. For most loans—in virtually all residential mortgage loans, the appraisal cost is not a material transaction cost in relation to the other transaction costs and the size of the loan. Moreover, there is no evidence that appraisal cost has risen significantly, if at all.

However, the regulators are unwilling, understandably, to give the lenders discretion to decide what, if any, appraisal they need in all transactions, and so they have attempted to carve out categories to be exempted. The problem is that the dollar value of transaction often bears little correlation to the need for an appraisal.

Professional appraisers know that it is far more complicated to appraise accurately a $50,000 inner-city property in an area where there are few recent transactions and unsettled conditions than it is to appraise a $500,000 tract home say in Potomac, Maryland. And there are many other issues and circumstances that affect the need for and the complexity of a particular appraisal.

Frankly, we believe the threshold exemptions proposed in the States that require the use of licensed or certified appraisers for all valuation assignments are dangerous and illogical.

Let me add that there seems to be no reason that a buyer of a $50,000 home should not be afforded the same professional opportunity to be protected as the buyer of a $500,000 home.

Recently, the Appraisal Standards Board of the Appraisal Foundation voted to adopt, in principle, a series of amendments to the Uniform Standards of Professional Practice to ensure that appraisers who are licensed or certified and thereby bound to comply with USPAP have flexibility under USPAP to undertake a variety of more limited assignments to meet various needs in the marketplace. The changes are fairly technical and are covered in greater detail in my written statement.

These changes do, however, remove what could have been argued was a potential obstacle to requiring the use of certified or licensed appraisers for all evaluations or appraisal assignments.

It is important to understand who is advocating the elimination or weakening of appraisal reform and who is not. The answer is that it is not the States which have responsibility for regulating professional appraisal practice. It is not consumers who pay for and benefit from an independent appraisal. It is not inner-city home buyers who have been victimized by low-ball evaluations of unregulated appraisers. It is not professional appraisers who have shouldered the burden of becoming licensed and certified. It is not the National Association of Realtors and National Association of Real Estate Brokers who are opposed to any increase in the residential de minimis. It is not the thrift industry which learned some hard lessons in the 1980's about appraisal abuses and knee-jerk opposition to reform.

As best we can tell, it is not even the small business community which, while concerned about availability of credit, has never complained about appraisal reforms.

Mr. Chairman, it is not most Federal agencies and enterprises like FHA, VA, Fannie Mae, Freddie Mac, the Office of Management and Budget, all of whom appear to oppose Title XI loopholes. Instead, support for creation of massive Title XI loopholes comes only from commercial bank trade groups in Washington whose operations, we are told, are now extremely profitable.

Mr. Chairman, there has been a lot of mythology created and misinformation spread during the endless debate over appraisal reform. I would like to take a moment to debunk some of the more popular myths that have been created.

First, notwithstanding what you have been told, Federal deposit insurance funds are at considerable risk from carelessly underwritten mortgage and business loans. According to latest FDIC call report data, the Nation's commercial banks presently own 3.5 billion dollars' worth of single-family residential property on which borrowers have defaulted and an additional $1.7 billion in multiresidential family REO, another $12 billion in single-family residential mortgage loans, and $2 billion in multifamily residential real estate is either 30 to 89 days or more than 90 days past due at commercial banks, much of which will result in default or foreclosure.

Defaults or potential defaults on $15 billion in single-family mortgage loans and $3.7 billion in multifamily mortgage loans do not seem insignificant. And when those defaults occur, only the value of the collateral protects the Bank Insurance Fund.

If professional appraisals on virtually all residential mortgage loans made by banks and thrifts are not important, then why do FHA, VA, Fannie Mae, and Freddie Mac require and support them? Why has the private mortgage insurance industry been fighting so hard to preserve Title XI? What do they all know that the bank regulators do not?

In this regard, I would like to quote briefly from a letter sent to the House Government Operations Committee by Fannie Mae on January 14, 1993. Quote, Fannie Mae considers an accurate appraisal to be one of the key elements that ensure prudent underwriting of a mortgage loan. The importance of collateral and the need for an accurate appraisal are not dependent on the dollar amount of the mortgage. The difficulty of the appraisal assignment is a function of the complexity and uniqueness of the property being appraised, not the amount of the mortgage transaction.

A second myth asserted by those opposed to Title XI is that appraisal fees have skyrocketed. This is absolutely false. Based on limited surveys that we have taken and seen and those obtained by the General Accounting Office and the Consumer Federation of America, it appears that appraisal fees for residential properties have remained fairly static in recent years and in many places have actually declined.

In this regard, Fannie Mae recently informed Congress that the dominant fee for single family appraisal ranges from approximately $200 to $275 and that increases in fees since 1988 have been modest.

A third myth is that Title XI has caused excessive delays in the performance of appraisals. There is absolutely no evidence of a shortage of licensed appraisers.

Moreover, to the extent that shortages are increasing delays of any kind, the Federal Appraisal Subcommittee has provided a fast-track procedure to provide waivers of Title XI's requirements. To date, only one jurisdiction, the Northern Marianna Islands, has requested a waiver.

In a very real sense, certified and licensed appraisers are a private sector, nontaxpayer supported, first line of defense in the regulators' war against unsafe, unsound lending and against redlining and other forms of loan discrimination. It would be a tragedy, therefore, if a large number of appraisers dropped out of the certification and licensing system because requirements and risks associated with that system far outweigh the availability of large numbers of appraisal assignments for unlicensed individuals under the broad exemptions being proposed by bank regulators.

Independent, honest, and competent professional appraisers can also facilitate economic development in blighted or economically depressed urban areas, and the lack of such appraisals can perpetuate the continuation of urban blight.

Let me explain briefly. A fair and accurate appraisal makes it far more difficult for lenders to discriminate on the basis of race, geography, or other unlawful discrimination practices by pressuring appraisers into undervaluing property to justify lending limitations. Conversely, appraisers enhance the prospects for economic development in blighted areas through small business loans and mortgage loans.

It is not uncommon for lower income buyers to overpay for a home because a developer pressures an appraiser to overvalue property to facilitate a loan. In such circumstances, if that home buyer is forced to sell then he often has a home with a value that is less than the remaining balance on his mortgage. And so the homeowner would typically simply abandon the property. The result is abandoned homes and the start of a declining urban neighborhood.

Both of these scenarios are real and demonstrate the economic impact of accurate real estate appraisals.

In conclusion, we strongly recommend that the Federal bank regulators require the use of State-licensed or certified appraisers regardless of the nature of the appraisal or the evaluation being performed. This requirement should extend to any evaluation of collateral in connection with transactions of federally regulated financial institutions.

Additionally, we recommend that the dollar threshold should be eliminated and other exemptions should be narrowed and more rationally related to the legitimate circumstances when additional flexibility is necessary.

Prior to enactment of Title XI, there was little or no regulation of appraisal or appraisers. There were, however, interagency guidelines that ostensibly governed appraisal practice. These guidelines were bare bones and often ignored, but they contained a standard for requiring real estate appraisals. The standard was that apprais-

als were required when the value of the collateral was material in the decision to make the loan.

This commonsense standard seems to us to be a good standard and a whole lot better than the broad and illogical dollar thresholds and categorical exemptions that have replaced the standard. The crazy quilt of complex exemptions and thresholds that regulators are continuing to impose and propose were neither required or anticipated by the enactment of Title XI.

The regulators' willingness to allow unlicensed individuals to perform evaluations is absolutely antithetical to Title XI. Their proposals have nothing to do with increasing the availability of credit. They are adverse to the soundness and consumer interests. They facilitate increased opportunity for discrimination and redlining. They will undermine effectiveness of Title XI, and they may derail it in entirety over time. And this, in our judgment, is the real motivation of those backing the exemptions.

What we are seeking—what they are seeking is a back-door repeal of Title XI. Congress should not allow that to happen. We strongly urge this subcommittee to look into the matter further and, if necessary, enact legislation to prevent the banking regulators from undermining the congressional intent of Title XI of FIRREA.

Thank you for your attention, and I would be pleased to answer any questions.

[The prepared statement of Mr. Hughes can be found in the appendix.]

Chairman FLAKE. Thank you very much, Mr. Hughes.

And Mr. Pompeo from the New York State Real Estate Licensing and Certification Board. You may proceed now, sir.

STATEMENT OF DOMINICK S. POMPEO, CHAIRMAN, NEW YORK STATE REAL ESTATE LICENSING AND CERTIFICATION BOARD

Mr. POMPEO. Before I begin, I would like to thank Chairman Flake as well as other members of the subcommittee for the opportunity to speak here today.

I come at the issues before you from a number of perspectives. As chairman of the New York State Real Estate Appraisal Regulatory Board, I lead a body charged with overseeing the competence and ethics of appraisers through licensing and certification. As a professional fee appraiser with over 14 years of experience, I earned my living through professional appraisal practice.

Like many Americans, as a home buyer and seller, I have relied on the accuracy of appraisal in making important financial decisions. Finally, as a taxpayer and citizen, I am vitally interested in the safety and soundness of our Nation's financial institutions.

All of these interests are at stake in the issues before you today, and all of these perspectives lead me to the same conclusion: The proposed exemptions to Title XI of FIRREA's appraisal requirements, including the dramatic increase in the so-called de minimis threshold, invite a repetition possibly of even greater proportions of the $100 billion plus taxpayer debacle and bailout for which we will be paying for over the next few decades.

I imagine that, given present day concerns, it is easy to brush aside the memories of the S&L crisis that caused the consumer

outrage toward appraisers and savings and loan institutions—and justifiably so—for the devastating losses to the Federal deposit insurance funds, private sector lenders, private mortgage insurers, and investors in mortgage-backed securities.

These losses totaled billions of dollars. Self-dealing and corruption were rampant. Gross overvaluation of collateral rendered many loans precariously unsafe while, simultaneously, sound loans were capriciously denied to redlined minority areas. Ultimately, fraudulent and faulty appraisals were determined to be responsible for more than half of the S&L failures.

Given the clear vision of hindsight, the potential for abuse in an unregulated appraisal industry is not surprising. After all, the real estate appraisal industry resembled most closely a cottage industry. Appraisals "as instructed" were the norm. There were no requirements for objective and adequate documentation for appraisals, nor any institutional oversight except for the sincere but inadequate efforts of a handful of national appraisal organizations. The lack of certification process resulted in an industry with a broad spectrum of appraisals ranging from excellent to utterly inadequate.

In the wake of the S&L disaster, the unquestionable need for regulation was clear. Hence, the construction and implementation of Title XI of FIRREA, with its protections for nearly all real estate transactions.

Then the de minimis controversy began. Little by little, year after year, the financial institutions' lobby pressured the banking regulators to raise the de minimis threshold, exempting millions, yes, millions of transactions from the basic commonsense requirements that appraisals be conducted according to uniform standards by individuals with demonstrated qualifications whose conduct is subject to oversight and discipline.

I would like to pause for a moment and ask you to reflect with me on the use of the term de minimis. Originally, the regulators could fairly argue that $15,000 is de minimis in context with real estate transactions. Then they raised it to $50,000, which in many parts of the country is surely not de minimis. Then they settled for a while on $100,000, which is roughly the average price of all the homes in the United States.

Now they are proposing a de minimis exemption of $250,000, which equates to over 90 percent of all residential real estate transactions and millions of commercial loans.

Mr. Chairman, there are many adjectives one could use to describe the proposed exemption, but surely the term de minimis is not one of them. Just how ignorant do they think we are?

The arguments used to promote ever greater threshold increases and other exemptions are without any basis in fact. Presently, New York has approximately 3,400 appraisers. One of the most frequent arguments designed to loosen Title XI regulations is that the regulations have caused and would continue to cause a shortage of appraisers. No county in New York has reported a shortage, despite the fact that the past 2 or 3 years have been the heaviest refinancing period in two decades.

Becoming licensed in New York is not an unreasonable burden. The pass rates on licensing examinations have routinely been over

77 percent for the general appraisers category and 69 percent for the residential appraiser category.

The course requirements are frankly minimal, requiring actual time of 2 to 4 weeks for appraisers who have taken no courses previously. The experience requirements are not required to be met for entry-level positions into the field. In short, there is no barrier to entry to becoming a licensed appraiser in New York State for any appraiser who is minimally qualified or minimally motivated.

Another frequently cited complaint is the claim of time delays and their coincident inefficiencies. The lenders blame time delays on appraisers, but if we consider that most lenders make a practice of reporting the time that passes between the application to the time that the loan goes through, the reporting of time delays is placed in its perspective.

It is also argued that Title XI has resulted in an increased cost to the home buyer. The evidence strongly suggests that this is not true. A New York State survey conducted between February 11 and February 16, 1994, indicated that appraisal costs have, by and large, remained flat over the past several years.

In addition, all of the costs associated with licensing and certification have been borne by the appraisers themselves. It is possible, however, that, in spite of these facts, costs to home buyers have increased because, when banks utilize in-house personnel for evaluation, the bank is free to charge the home buyer any price for the service. So while fees to appraisers generally have not increased, it may be that costs to home buyers have increased due to the pricing policies of lenders.

The banking industry has been complaining about increased costs and delays in obtaining appraisals due to Title XI of FIRREA almost from the moment of Title XI's passage in December 1989. The fact is, Title XI did not become fully effective until January 1993, and almost no States required licensing before 1992.

I, personally, question the so-called data the banking industry proffered in support of arguments of increased costs and delays. But if there were problems with delays, they surely had nothing to do with Title XI. It seems far more likely that any such delays were the result of the extraordinarily high level of refinancing resulting from dramatically lower interest rates.

I would like to add at this point a comment about the value of independent professional appraisers which is often overlooked. In addition to helping to ensure safety and soundness and to enforcement of Federal and State laws, including requirements under the Americans with Disabilities Act and various environmental laws, with a full appraisal, an appraiser who is properly educated about such laws carefully inspects the property and, as a matter of course, points out concerns related to compliance with applicable laws.

In addition, New York State officially began the process of licensing and certifying appraisers in January 1991. Since that time, the enforcement unit of the Division of Licensing Services have received approximately 70 complaints of alleged violations of our appraisal law. Of this number, 58 complaints were lodged against residential appraisers for various infractions. These complaints in-

clude quite a number of serious charges for alleged violations of both ethics and competency standards of USPAP.

Because of our Licensing and Certification Program, we were able to assist many of our complainants in obtaining a satisfactory solution to their complaints. It is important to note that we would not have been able to assist 80 percent of our residential complaints had the de minimis level been raised to $250,000.

Finally, let us consider the proposed $250,000 de minimis threshold. It carries with it, first and foremost, the obvious fault that has characterized each de minimis increase: Fictitious, uncertain evaluation. If there must be exemptions from Title XI safeguards, the complexity of the property should be the standard, not the dollar amount. A $250,000 property in New York City may be a minor property, while an $80,000 property in Lancaster, New York, is likely more significant.

The immediate consequences of wider and wider exemptions is clear. In millions of residential and commercial transactions, an evaluation of collateral will be undertaken by persons who are not subject to State supervision and discipline and will not be required to comply with uniform standards. The prospect of faulty and fraudulent appraisals would increase dramatically. Taxpayer-backed deposit insurance funds will be increasingly at risk. Consumers will be cheated more often, and unscrupulous lenders will conspire with equally unscrupulous nonappraisers to high ball or low ball to make a deal work or not work for whatever nefarious objective they are pursuing, including more widespread redlining.

Low-income individuals, particularly those belonging to minority groups, were previously overwhelmingly shut out of the home purchasing process. The proposed exemptions will remove the consumer protections objective appraisals currently provide for all consumers, but low- and middle-income and minority home buyers and sellers would, as usual, be particularly hard hit.

Finally, the State appraisal regulatory systems would be severely undermined, if not destroyed, by the exemptions. There will be an underclass of unlicensed nonappraisers who will be free to be incompetent or dishonest without any realistic fear of retribution. As a practical matter, they will have nothing to lose.

The number of licensed appraisers will surely decline if licensing is not required. The revenue base of the State boards, funded by application and testing fees, will be depleted. The boards will not be able to adequately do an adequate job policing the smaller number of licensed appraisers. The public will be confused and justifiably lose confidence in the ability of the boards to supervise appraisers. All in all, you are looking at a chaotic situation.

The current $100,000 de minimis already places billions of dollars at risk. The Resolution Trust Corporation reports that $15.5 billion in losses can be attributed to loans below $250,000. The new system would remove millions of transactions from Title XI supervision and will affect 90 percent of residential loans and hundreds of thousands of commercial loans exempted under $1 million, undermining the present administration's desire to generate small business development.

Quite obviously, the objective of those who are working year after year to increase the de minimis threshold is to rid the various fi-

nancial institutions of FIRREA protections. What message will Title XI eradication send to small business entrepreneurs and the average consumers who have yet to regain faith in the appraisal industry and the Federal deposit insurance funds?

Are we saying that Title XI implementation was an effort to make the general public believe that we would do all in our power not to allow history to repeat itself but that it was only meant as a temporary pressure valve? Do we now remove the valve because the eyes of America are turned elsewhere, allowing us to permit financial institutions and unregulated appraisers to lay down a potential minefield for the unwary and the unsophisticated?

I am not trying to sensationalize this controversy. My goal is to place FIRREA in its proper perspective—the framework of its inception. Please, remember that it is this vantage point which created FIRREA. We cannot send Title XI on its way because it has done its job so far. The job has just begun. The bottom line is that bank regulators should, at a minimum, require the use of licensed or certified appraisers for all appraisals or evaluations whenever such evaluations of collateral are undertaken. To do less is to flirt with disaster.

Like the great New York Yankee, Yogi Berra, used to say, it is like deja vu all over again.

Thank you for your kind attention, and I would be pleased to answer any questions.

[The prepared statement of Mr. Pompeo can be found in the appendix.]

Chairman FLAKE. Thank you very much, Mr. Pompeo, and thank you for not sensationalizing the controversy.

We would like to just ask several questions of this panel, as Mr. Peter Deutsch has already asked some of you, Mr. Brown.

Some of the concerns I guess we have as we try to move through this process, and I guess you heard some of the testimony earlier this morning as it relates to what has become kind of a gray area for me during the course of this hearing, and that is the movement from the certified appraisal by a certified appraiser, which has historically been one trained in this field, capable of providing for the bank the necessary information to a standard measurable by a universe that has already been predetermined versus what now is a growing new industry, in my opinion, of evaluators.

What is your opinion in relationship to how the process will work if in fact there is no requirement for the appraisal by a certified appraiser?

Mr. BROWN. Well, we have heard some testimony this morning which implied that the banks would seek to use internal employees to do some of these evaluations. Frankly, whenever they define for you or for anyone else the word "evaluation," it sounds just like an appraisal. The only difference, as I pointed out earlier, is it sounds like they want somebody who hasn't been tested, somebody who may or may not have any training that does this work for them. And I really have some difficulty in understanding why that will serve any useful purpose whatsoever.

So they want to talk about a term, it seems to me, as though a method to avoid securing an appraisal done by someone who is

qualified in an effort to get evaluation simply to be able to put in a file to say: Well, yes, Mr. Regulator, we did something but we got it done by someone who has no particular qualifications whatsoever.

Chairman FLAKE. Mr. Pompeo, you have 3,400 registered certified appraisers in New York. What happens if this particular process continues to move in the direction that it is now?

Mr. POMPEO. If the proposed de minimis is raised to $250,000, in many, many counties within the State of New York, properties, particularly in the residential area above $250,000, just simply don't exist. There would be no need for appraisers to have training and experience in those counties to be licensed and certified, and we would revert back to a system where someone during the daytime, could be a college student or a gas station attendant and part-time appraiser, and have no training and may know something about construction and that would be it.

Chairman FLAKE. Are most appraisers in New York full-time persons, this is their full-time vocation?

Mr. POMPEO. Yes. Most of the appraisers that are licensees in the State of New York are full-time real estate appraisers.

Chairman FLAKE. All right.

Mr. Hughes, your group has a lot of experience in terms of doing appraisals in minority communities, urban communities, the impact on communities that make up the third world nation within our borders. What is your overall perspective of what happens if this process goes through in terms of the regulatory structure that is proposed?

Mr. HUGHES. Mr. Chairman, as we view it, lending institutions are not breaking their backs to make loans in a number of the communities that you and I talk about, these third world communities. One of the things that, as you know, happens, is that those communities have been written off or redlined. The opportune words here that we are talking about with other than certified or licensed appraisers, are not qualified persons doing these other than appraisals, but we are also talking about independents, individuals working for the financial institutions, for example, employees, certainly cannot consider themselves independent of their employer in making determined evaluations or whatever they are going to be called. These areas that are typically hard to phrase and to identify real value, but yet in need of—I am pausing because you are listening.

Chairman FLAKE. Go on.

Mr. HUGHES. But yet are in need of sound financial assistance, would only be hurt, in our opinion, by lack of real professionalism and credibility in serving those communities.

Mr. BROWN. Mr. Chairman, would I be permitted to speak to that also?

Chairman FLAKE. You may do so.

Mr. BROWN. One thing I would just like to mention to you is that the Appraisal Institute is concerned about making certain that we provide services to all of our communities and to all of our people within the United States, and in that regard, we currently have at least one chapter who has established a pro bono program for appraisal services where it is appropriate. And at a recent meeting we held in San Diego, our national relations committee and their

subcommittee, this is a minority relations subcommittee, began additional study on the prospects of trying to institute a pro bono program throughout the United States.

Chairman FLAKE. Mr. Pompeo, currently you have a training program for certification. Would there be a training program for those who would be evaluators and what would be the difference in terms of how you would train an evaluator from how you would train an appraiser?

Mr. POMPEO. New York is a voluntary State. If there was no mandate for appraisers above a $250,000 level, there would be—we have no jurisdiction to create any type of training or guideline for evaluators or for an evaluation. Basically, whatever the particular institution would consider as an evaluation, would be an evaluation, and the qualifications of the evaluators would be up to those particular institutions, because in New York State, we have no jurisdiction over those people.

Chairman FLAKE. Do you work from a manual or a book for certified appraisers that is national; there is a universal manual from which they are trained?

Mr. POMPEO. Guidelines have been set up by the Appraisal Standards and the Appraisal Qualifications Board of the Appraisal Foundation. New York State, as do the other States, follows those guidelines, and that has been enacted into law in New York State, and appraisers who are licensed and certified get education and training from minimum standards so that the consumer is protected.

Chairman FLAKE. So the evaluation by the bank having received an appraisal from a certified appraiser and the regulators who perhaps will analyze that particular document, have at least some standard by which they can measure, regardless of where they are?

Mr. POMPEO. Yes. If evaluations were conducted by licensed or certified appraisers, then what would happen, not only would there be guidelines for those individuals and standards to those individuals, but more important, those individuals would be subject to discipline by the various States, so that if they committed an infraction against the independent appraisal policies that are the standards that we follow, according to the foundation, sanctions could be made against them. Whereas under the proposed de minimis level, those people performing evaluations would have no sanctions.

Chairman FLAKE. Can all of you give an opinion on what happens then if the evaluators without standards assume the responsibility now for giving an evaluation which is defined differently from an appraisal, regulators now do not have your manual, your process to be able to have a quantifiable qualitative measurable tool, what happens in terms of an evenness. Do you anticipate an unevenness in the process, and what is the downside of this process?

Mr. POMPEO. The downside is that we have no jurisdiction over those evaluators and since we have no jurisdiction, we have no role in assessing whether or not they protected the consumer's interests. At the same time, if we determined that an individual has committed a violation of current standards, we have no methodology to enforce those standards against that individual.

Chairman FLAKE. Mr. Hughes.

Mr. HUGHES. Mr. Chairman, as an independent appraiser operating in more than one State, we pay fees to become licensed and certified to those many States that we operate in. We are required to maintain continuing education hours as well as the hours necessary to qualify.

There is a cost associated with—cost and a time factor associated with being licensed and certified. For those communities that will not require licensed and certified appraisers to do what they need to do to obtain employment from these institutions, I don't think anyone would voluntarily expend that time and that cost. So consequently, I think you will see many individuals dropping out of the State system of accountability and qualification.

Chairman FLAKE. Mr. Brown.

Mr. BROWN. I would agree with what he said, in that there would be no incentive for people to be licensed—I mean, licensed or certified, if they could simply make their living doing evaluations, it would certainly free them from the encumbrances of having to perform under any sort of uniform standards, as we know them today, and I certainly think it would be extremely confusing if the regulators would attempt to try to establish a separate set of guidelines, a separate set of uniform standards for evaluators.

It seems that what we have in place, to me, is a sound system, and if we can use the departure provision where it is appropriate to let licensed and certified appraisers perform the tasks that they are trained to do, that we can satisfy the needs of the marketplace without trying to create some new entity.

Chairman FLAKE. All right.

Thank you very much, all of you. We certainly appreciate your testimony and it has been very helpful in trying to give some balance to this discussion, we do appreciate it.

Yes, Mr. Brown.

Mr. BROWN. Just one more comment and I don't want to unduly take up your time, but it is quite interesting when the agencies continue to point out, well, the secondary market is going to require an appraisal anyhow, if the secondary market, the people who use appraisals, the people who feel the need for appraisals are going to require it.

Why do regulators feel they can tell them they don't need them?

It seems as though they are speaking in face of what the public is already demanding, in that those various other agencies are saying we are not going to make loans without appraisals and yet the banking agencies are saying, well, that is OK, but we will exempt them anyhow.

Chairman FLAKE. Has Fannie and Freddie generally accepted the appraisals from the banks, or have they sent out for second appraisal?

Mr. BROWN. They are looking for licensed and certified appraisers to do the work, and as long as the banks supply that, then that is what they are asking for. If they move to evaluators, or they say they don't need one, I am afraid the secondary market will say, I am sorry, we don't need your loans.

Chairman FLAKE. All right.

Thank you all again.

Mr. BROWN. Thank you, sir.

Chairman FLAKE. Panel number 3 is Chris Lewis, Michael Macielag, and Paul Geithner, Jr.

We are pleased that you have been able to come to share with us this morning as witnesses before this subcommittee, and we would like to introduce you.

You may summarize your testimony or you may use your written testimony which we already have copies of.

I would hope you might keep your testimony to about 10 minutes each, and then we will follow that with questions.

Mr. Chris Lewis is the director of banking and housing policy for the Consumer Federation of America; Mr. Michael Macielag is the president and CEO of Chesapeake Bank & Trust Co., representing the IBAA; and Mr. Paul Geithner, Jr., is the president of First Virginia Banks, representing the ABA.

We would like to hear from you in the order that I have introduced you, beginning with Mr. Lewis.

STATEMENT OF CHRIS LEWIS, DIRECTOR OF BANKING AND HOUSING POLICY, CONSUMER FEDERATION OF AMERICA

Mr. LEWIS. Thank you, Mr. Chairman.

The Consumer Federation appreciates the opportunity to testify today on the subject matter of this morning's hearing and it is our hope that today's hearing will begin to set the record straight on the impact to consumers of proposed changes to appraisal standards contained in the 1989 FIRREA legislation. We believe very firmly that the changes are both sweeping in scope and detrimental in impact on the financial well-being of consumers who expect and deserve fair treatment in real estate markets.

Consumers receive broad benefit from FIRREA's Title XI appraisal standard requirements which require real estate appraisals to be performed in writing in accordance with uniform standards and by appraisers whose competency has been demonstrated and whose professional conduct is subject to effective supervision.

Consumers benefit from these appraisal standards in two principal ways: As home buyers and homeowners by the availability of accurate and professional assessments of residential real estate value; and second, as taxpayers by the assurance that sufficient collateral exists to support the loans of insured depository institutions and the insurance funds that back those institutions.

CFA believes that quality appraisals conducted by certified professionals are a critical component of modern real estate markets and the public confidence in the integrity of real estate and financial markets is dependent upon them.

In June of last year, the banking regulatory agencies issued a proposed rule to increase to $250,000 real estate transactions that would be exempt from Title XI appraisal standards. We find no evidence to warrant the proposed rollbacks contained in the joint agency rulemaking and we find the proposal seriously flawed.

Most importantly, the proposed amendments to the regulation implementing Title XI will obliterate the critical State enforcement of appraisal standards for residential real estate transactions. We believe that this evisceration of professional accountability in the evaluation of real estate collateral will: One, undermine the safety

and soundness of publicly supported depository institutions; two, damage consumer access to accurate appraisals necessary for the informed purchase or sale of real estate, and finally; three, undermine the delivery of mortgage credit on fair, efficient, and on a nondiscriminatory basis.

In terms of safety and soundness, the relaxation of appraisal standards breaks a fundamental commitment with the American people, a commitment to reduce, not increase risk to deposit insurance funds. The appraisal exemptions contained in the proposed rulemaking are little more than political sops to the banking industry.

The exemption, particularly the residential housing exemptions, have little if anything to do with increasing the availability of credit to legitimate borrowers. As I note in my written statement, CFA 1½ years ago conducted a national survey on appraisal costs and found no correlation between industry certification and the costs of appraisals.

And the Congress should remember that it is the consumer who pays for the appraisal, not the bank. The bank simply collects the fee.

But finally, Mr. Chairman, I want to speak to the impact on consumers of the proposed changes. We believe that the proposed increase in the de minimis level will have a deleterious impact on the interests of consumers who rely on quality appraisals afforded them by licensed and certified appraisers.

The proposal will deprive consumers of the services of professionally trained appraisers who are required under the Title XI provisions to observe uniform standards of professional appraisal practice and are accountable to State certification review and licensing enforcement. A proper appraisal is an unbiased estimate of value reflecting market conditions, that is a vital piece of information necessary for a consumer to make an informed decision about a real estate transaction.

Consumers are heavily reliant on the real estate professionals with whom they deal directly and indirectly, including the appraiser for the delivery of accurate and unbiased information. It is CFA's firm belief that accurate and reliable appraisals are a necessary component of the public's perception of and confidence in real estate markets.

Unprofessional and improper appraisals result in real estate property being either undervalued or overvalued, both of which materially damage the interests of consumers.

Undervalued property results in the rejection of a mortgage application and the denial of the opportunity of home ownership. Overvaluation of property results in improper and misleading information being provided to the consumer and increases their likelihood that a home buyer will settle on a contract price in excess of market value and may well increase the probability of default and loss to the lender.

Title XI appraisal requirements guard against these types of fraud by placing an appraiser's license, the ability to conduct business, at risk for improper conduct. The proposed de minimis threshold of a quarter million dollars will wipe out the market safeguards that Title XI provides consumers and will invite the reintro-

duction of faulty and fraudulent appraisals into the underwriting of mortgage loans.

We are particularly concerned that the proposed de minimis level will exacerbate problems of credit discrimination for inner-city and particularly minority consumers. Minority and low-income consumers are particularly in need of the protection afforded by independent, competent, and fair appraisals.

This subcommittee recently completed hearings that confirmed ongoing problems of redlining practices by the banking industry that serve to deny credit to minority and inner-city consumers. Obtaining low-ball appraisals has been historically a means by which lenders perpetuate redlining practices. Additionally, they are victimized by sellers of real estate who sell property at exorbitant prices, taking advantage of these home buyers relative lack of sophistication in the real estate market.

For these home buyers, an independent and competent appraisal is a frontline defense against unfair and abusive treatment. The pending proposal to amend appraisal requirements will increase the burden these consumers face in obtaining mortgage credit by denying them the opportunity to initiate State regulatory board administrative proceedings against evaluators of collateral they believe to have engaged in improper or fraudulent practice. This result is counter to the national interests of eradicating bias from the nations credit markets and from the stated goal of the proposed amendments to promote the expansion of credit availability.

As I note in my written statement, we believe furthermore, that the proposal may well undermine a critical fair lending reform included in the FIRREA legislation by Congressman Mfume of this subcommittee. That measure was intended as a civil rights measure to counter concerns that discriminatory appraisal practices may prevent minority home buyers from obtaining credit.

Lenders have historically refused to give borrowers copies of appraisals even though consumers have paid for them. Mr. Mfume's initiative was intended to assist fair housing groups and civil rights enforcement efforts to determine when and how discrimination may be creeping into the appraisal process.

The effect of the proposed changes on this civil rights matter is uncertain and certainly unaddressed by proposed amendments to Title XI requirements.

In conclusion, Mr. Chairman, consumers will be particularly harmed by this proposal. Inaccurate and unprofessional appraisals can add thousands of dollars to the cost of a family's shelter and can even bar a consumer from having the very opportunity of home ownership. Consumers, ever mobile in today's job market, will be particularly harmed in our Nation's soft or depreciating markets where housing values remain uncertain. For the benefit of taxpaying consumers, we believe that now is the moment to maintain current safeguards.

Finally, attached to my written statement is a recent article from the *Washington Post* that speaks to the subject matter of the proposed changes. It points out that if there are savings from the proposed changes, that there is no guarantee that these cost savings would be passed on to consumers. Rather, as the article suggests, they will be pocketed by the bankers. That, Mr. Chairman, is what

we believe is behind the agency's proposal; more fee income for banks and less quality service for consumers.

Thank you, Mr. Chairman.

I will be glad to answer any questions.

[The prepared statement of Mr. Lewis can be found in the appendix.]

Chairman FLAKE. Thank you very much, Mr. Lewis.

Mr. Macielag.

STATEMENT OF MICHAEL MACIELOG, PRESIDENT, CHESAPEAKE BANK & TRUST CO., REPRESENTING IBAA

Mr. MACIELAG. Mr. Chairman, my name is Michael Macielag, I am president of the Chesapeake Bank & Trust Co. in Chestertown, Maryland. I am appearing on behalf of the Independent Bankers Association of America.

The IBAA strongly supports the agency proposal to increase the de minimis level for appraisals to $250,000. This is justified by three factors: Banks losses on real estate-secured loans under the threshold level have been low, eliminating safety and soundness concerns; appraisal costs have increased; and appraisal requirements have decreased credit availability.

While allowing the agencies to set a de minimis threshold, Congress required that they determine in writing that it does not represent a threat to the safety and soundness of financial institutions. The agencies have fully satisfied this statutory requirement. They recently released additional information supporting this conclusion.

Unfortunately, the agencies have delayed final action due to the onslaught of letters from the appraisal industry opposing the de minimis. Their reasons have nothing to do with safety and soundness and everything to do with full employment for appraisers.

Since the only issue before us is the risk to the industry and the insurance funds, it is past time for the agencies to increase the de minimis to $250,000.

A $250,000 de minimis will benefit my customers and my community. Chesapeake Bank & Trust is a $48 million community bank located in Chestertown, Maryland. It is a small town on the Eastern Shore.

My bank is typical of the IBAA membership. We lend almost exclusively in our local community. My customers have experienced first-hand the extra costs in both money and time as a result of the current appraisal regulation. In some cases, appraisals can be so expensive that they may make a sound small- or medium-sized business loan uneconomical.

The directors of the bank and I perform the evaluations for all of our loans, including those over $100,000. For loans over $100,000, where we must hire an outside appraiser, we still perform our own evaluation because, frankly, we have more confidence in it than an outside appraisal.

In the 7-year history of my bank, we have experienced zero losses on real estate loans. Appraisals by outsiders are often inaccurate. I have seen appraisers from Annapolis or the Easton area come into town with little understanding of the market. How can an out-

sider's judgment be more valuable than that of a banker who has been making loans in the community for years.

The outside appraiser adds nothing to safety and soundness. It is in the bank's best interests, and this is the crux of the matter, it is in the bank's best interest to ensure an accurate appraisal, one that doesn't undervalue the property which could result in a lost loan opportunity (after all, we are in the business to make money, we don't make money unless we make loans), or one that overvalues the property resulting in additional exposure to the bank.

The bank is more motivated than anyone to get it right. In cases where banks can forego an appraisal for loans below the de minimis, the cost savings are passed on to consumers. This makes credit more affordable and makes lending easier.

For example, I can think of one young very disciplined and entrepreneurial couple who started a small sandwich shop in Chestertown with no resources other than a family member who was willing to cosign a note and a bank that believed in them. We made them a small loan.

Through hard work, long hours, frugality, discipline, determination, they have made their business a success and they have managed to save $40,000 over the last 5 years, which I think is remarkable. They are now ready to purchase the small building in which their business is located and we are ready to lend them the $150,000 to do it.

This building is less than one block from the bank in a market with which we are familiar. We know this is a good loan. A certified appraisal will cost between $1,500 and $2,200. When I conveyed this to my customer, she came close to crying over spending that much money on something that she didn't need and didn't want because somebody in Washington, DC said she had to have it.

The existence of a de minimis threshold does not mean that all loans below a specific level will not be appraised. Extenuating circumstances, specific underwriting criteria, collateral concerns, or secondary market considerations, will often prompt an appraisal, regardless of the de minimis. However, a higher de minimis will return banker judgment to lending, something that has been regulated out of much of the credit process.

A regulator may also require Title XI appraisals to address safety and soundness concerns. However, the value of appraisals can be overemphasized. The agriculture and oil crisis of the mid-1980's show what happens when banks lend solely on collateral. That did not protect banks on land valued at $4,000 an acre when that land fell to $1,800 an acre. Agriculture banks that relied solely on collateral lending did not survive.

IBAA also urges that this subcommittee keep in mind that appraisal regulations are only one of many safety and soundness regulations. Appraisals are not required for consumer protection. Consumers may want and are entitled by law to copies of their appraisals. However, the thrust of the requirement is to ensure safety and soundness.

The appraisal rules are also not intended to be a full employment act for appraisers. Appraisers are important but they ultimately are not the underwriter. They are not the risk-taker, the bank is.

If banks can determine that the risk of not using an appraiser is minimal and the agencies can show that a de minimis poses no risk to the financial system, then there is absolutely no justification for not raising the de minimis to $250,000 today.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Macielag can be found in the appendix.]

Chairman FLAKE. Thank you very much.

Mr. Geithner.

STATEMENT OF PAUL H. GEITHNER, PRESIDENT, FIRST VIRGINIA, REPRESENTING THE ABA

Mr. GEITHNER. Thank you, Mr. Chairman.

My name is Paul Geithner. I am president of First Virginia Bank, Inc., in Falls Church, Virginia. We are a $7 billion multibank holding company which has 21 banks which, in turn, operate 326 offices in Virginia, Maryland, and east Tennessee.

All the banks but the lead bank, which is located in northern Virginia, are in the $50 to $500 million range. And the banks in the holding company serve rural and suburban and urban areas of all three States in which we operate. I also currently serve as a member of the administrative committee of the Government Relations Council of ABA and I am the chairman of the Virginia Bankers Association Legislative Committee.

The ABA, as you know, is the only national trade association serving the entire banking community, from small community banks to large bank holding companies, and I emphasize that what we have said here today is supported by all of our banks, large or small, rural or urban. And the ABA itself represents banks which account for about 90 percent of all of the commercial banking industry's total assets.

Now, you have a copy of my formal testimony, and in the interest of time, I won't read the entire testimony, but I would like to emphasize certain key points.

First of all, obviously, commercial banks are becoming an increasing user of appraisal services because our share of the mortgage market has increased dramatically over the last 5 or 10 years. Emphasizing what Mr. Macielag said, I can't imagine why anyone could conceivably believe that a bank is not interested in having a proper appraisal or a proper evaluation of their collateral.

It is in our best interests to have an accurate evaluation because otherwise a loan is no good. So it is in our best interests to see that that happens.

The second point I would like to make is inadequate appraisals are not a factor for bad real estate loans. There may have been some rare exceptions for some large commercial loans, but none in our experience. And by the way, I might add, where there have been losses, they have been caused primarily by a deterioration in market conditions or perhaps bad credit judgment, not because of a faulty appraisal, in almost every case.

Now, in rural areas, contrary to what may have been said here earlier today, several of our banks have told us that it does take longer to get a licensed or certified appraiser when one is required. And the costs of these appraisals has increased somewhat, not dramatically, but somewhat. And, of course, these developments do not benefit consumers who we are in business to serve.

I might also point out that impacts—that the impact of a delay in closing a loan in a period of rising interest rates, it doesn't help the consumer one bit.

Now, again, I would like to emphasize that the lack of a certified or licensed appraiser does not mean that the bank lacks appropriate information about the value of their collateral. In fact, in many cases, and in my company we used Freddie Mac and Fannie Mae forms for all loans except for the smallest home equity, second trust loans. And in those cases, we do conduct an evaluation in lieu of a full-phase appraisal, and the cost is approximately half of that of a licensed appraisal.

If we go out and perform an appraisal on a piece of property for which the customer is borrowing money for his first home, he will pay half as much as he would if we had to use a licensed appraiser.

Again, I emphasize that we have as strong an interest as anyone in getting a sound appraisal. By the way, in higher income areas such as northern Virginia and this area right here, it is almost impossible to make a real estate loan for less than $100,000, which if we stick with the $100,000 level, requires a licensed appraisal in every single case, which in our feeling, plugs up the process.

I might point out, too, that in rural areas, many of our bank directors will perform the routine appraisals and by virtue of their long experience and residence in the area, coupled with the fact that as directors, they are responsible for the safety and soundness of their bank and they have a fiduciary responsibility, makes them pretty circumspect when they conduct an appraisal. And, frankly, we have great confidence in their ability to do so and have suffered absolutely no losses. I repeat, absolutely no losses, and this is from all 21 banks in my 25 years with the company, due to a faulty residential real estate loan appraisal.

I want to also point out that we engage the appraiser, not the borrower. Also, if the appraisal is conducted by a bank director, he does not participate in the evaluation of the loan. He does not make the loan decision. And, again, the customer gets a copy of the appraisal, upon request, free of charge.

I might point out with all the discussion about the alleged impact of faulty appraisals on safety and soundness in the last couple of years, there have been professional appraisal organizations, and I suspect those gentlemen were involved in some of the process as well. The regulators, of course, are responsible for safety and soundness, and they, too, have a strong interest in the accurate evaluation of the collateral. So that it seems to me that, or seems to the ABA, that if the regulators themselves have adequately studied the issue and favor an increase in the de minimis issue, there should not be a problem in Congress with agreeing with that approach.

I also point out, to the best of my knowledge, a document called the "Origins and Causes of the S&L Debacle," which is a report

made to the President and Congress by the National Commission on Financial Institution Reform, Recovery and Enforcement, does not mention appraisals as a cause of the problem. So in summary, the safety and soundness objection to raising the de minimis, frankly, is a red herring.

So in conclusion, I would like to emphasize that we do, the ABA fully supports the proposed increase in the de minimis level. It has no impact on safety and soundness and would be beneficial to the consumer.

Thank you very much, Mr. Flake.

[The prepared statement of Mr. Geithner can be found in the appendix.]

Chairman FLAKE. Thank you very much.

And we are happy for all of you taking the time to come before this subcommittee.

Let me start with you, Mr. Geithner.

Something that has been stated several times today is that the directors and management of the bank have the responsibility for safety and soundness and, of course, you know the whole question, the questions that we are addressing in Title XI emerge primarily out of FIRREA, and FIRREA came into being only because of failures in the S&L industry, and many of those failures were because of activities of directors and management in banks. So that the constant repetition of the role of directors and management of banks as a support for trying to raise the de minimis level would seem to represent an inconsistency in terms of the historical record.

Maybe you want to respond to that?

Mr. GEITHNER. I think that is a good point, Mr. Chairman. I think one thing I would have to say is that I think that in retrospect, it has been determined by most parties that the regulators themselves were perhaps a bit too lax in their oversight responsibilities for examining banks.

I am not trying to pin the tail on the regulators' donkeys, so to speak, but I think that has been an acknowledged problem.

Chairman FLAKE. That is true, but also, as they are part and parcel in this particular process, that once again we may be at the same place—so you know it is a difficult process too, when the regulators are supporting something, the bankers are supporting it, and we argue—we can argue that the fault was the directors and management, or we can argue that the fault was the regulators, and here they both are together again, it easily could be viewed by Members of this body who are consistently saying to members of ABA and all other associations that I have opportunities to speak to, this Congress basically operates on the basis of a knee-jerk reaction to whatever the press suggests is inappropriate. So you have to keep that in the background in terms of trying——

Mr. GEITHNER. I might add, Mr. Chairman, I think that most of what you are saying in terms of the lack of oversight or proper judgment on the part of directors, I think it is more particularly appropriate when one speaks of the S&L industry, not the commercial bank industry.

Certainly, the overwhelming majority of the losses and the problems that occurred were in the S&L business not in the commercial bank business.

Chairman FLAKE. I agree with you wholeheartedly, but the general public does not make a distinction between the two.

Mr. GEITHNER. Unfortunately, no.

Chairman FLAKE. Yes, sir?

Mr. MACIELAG. Well——

Chairman FLAKE. You were looking like you wanted to say something.

Mr. MACIELAG. I was going to make the same point, there is a distinction between the banks and savings and loan. And at that time, there was a lot less—the capital requirements were much lower for the thrifts and as a result people had a lot less at stake. In the banking business, capital requirements are quite stringent; directors and officers, particularly, have investments in their banks.

There is a whole lot more at stake than I think there was at that time. People were playing the game of, you know, "heads, I win, tails, the government loses." And that is what was happening in that industry 10 years ago.

Chairman FLAKE. In every panel, the question of the role of the evaluator juxtaposed against the historical role of the certified appraiser, by almost any observation seems to suggest that there is a lowering of the standard. Would you comment on that, please?

Mr. MACIELAG. I heard somebody in an earlier panel, well, they are using the terms "evaluator" and "appraiser" interchangeably, and, frankly, I always have—the distinction I make is between what I call an outside appraisal and an inside appraisal, and do the inside appraisers have the formal—the formal training? Perhaps not. But the purpose of the drill here is to evaluate whether that collateral is going to back up that loan, so, no, it is less formal.

There are fewer credentials, as such. It doesn't mean that the evaluation is any worse. In fact, in a lot of cases, I think they are better. I think that people who have been in communities for 10, 15, 20 years doing this sort of thing, come up with better answers and are able to do a better job.

Chairman FLAKE. The question becomes how does the regulator body—how do the regulator bodies develop a standard by which they will measure? I think that keeps popping up in my mind. At least now you have something to measure with or by.

Mr. MACIELAG. I have been in the business since 1976, and I have been doing evaluations on real estate loans and I have been through maybe, I don't know, six or eight exams by the FDIC, and I can tell you they look at your loan files and they look at the appraisals and if there is something—excuse me, evaluations, and if there is something missing, they are going to let you know about it.

There are standards. You have to demonstrate that you have done the work. You have gone out and looked at comparables, you have looked at the property. You have to have some justification for the number that you have put on the property. So I think that process is in place.

Chairman FLAKE. So the evaluator will do nothing basically different than the historical certified appraiser has been doing?

Mr. MACIELAG. Less documentation.

Chairman FLAKE. Less documentation?

Mr. MACIELAG. Right.

Mr. GEITHNER. I will concur on that, too, Mr. Chairman. The practical matter, it doesn't really make that much difference, you may call it an evaluation or an appraisal, but at least in the experience of our 21 banks, it is one and the same thing.

Chairman FLAKE. Does it mean a "no document" kind of generation of loans?

Mr. MACIELAG. We have literally taken an application one day and gone to settlement the next, and the average is probably 1 week to 10 days. You throw the outside appraisal into the process and you have just added weeks and hundreds of dollars to the process. Which seems absurd if, in fact, we are looking at a property that we may have made a loan on three times before, as this property has changed hands over the last 20 years. We know the property, we know the neighborhood, we know what it is worth. We are just making the consumer come up with dollars that he shouldn't have to come up with.

Chairman FLAKE. Doesn't "low-doc" and "no-doc" seem to suggest at least some reasonable opportunity for lowered standards and, therefore, some lessening of the qualitative nature of the loans in the bank?

Mr. MACIELAG. I haven't seen any evidence of it. Again, it comes down to banker judgment, and I haven't seen any evidence that banks failed because of bad residential loans. I just don't know of any banks or thrifts that failed because of——

Chairman FLAKE. That is because they are too big, in some cases.

Mr. MACIELAG. That is right.

Chairman FLAKE. Am I right?

Mr. MACIELAG. Yes.

Chairman FLAKE. We can name a few but I won't do that. Mr. Dingell does that.

Mr. LEWIS. Mr. Chairman.

Chairman FLAKE. Yes, Mr. Lewis.

Mr. LEWIS. We would endorse the line of questioning that you are pursuing here which is the need to have a uniform set of practice standards at play in the marketplace. It makes it more efficient for the regulatory community, as you point out. That part in the departure provision which was discussed in previous panels, we think warrants a very serious exploration as a way to perhaps solve some of the problems that the banking industry is raising and also perhaps reap some consumer benefit in terms of lesser cost.

And the critical element there is that you would maintain the uniform set of standards across the industry in the evaluation of real estate collateral, but you would permit more tailored and perhaps less detailed appraisals or evaluations to occur where appropriate.

I think we are in receipt in the recent spate of refinancings, of complaints from consumers about having to have full-blown appraisals on property that was evaluated, as my colleague has men-

tioned here, in recent tenure, and the departure provision would seem to us to be a very appropriate way to address the need in that type of circumstance for something less than an absolutely full-blown appraisal, but yet, one that would retain a standard that could be measured against other evaluations within the same market or across markets. That, again, we would suggest to the subcommittee might be helpful.

Chairman FLAKE. I think that would be a great concern of ours. The regulators are gone, but I think that would be a recommendation that they look seriously at.

Mr. LEWIS. What one doesn't want to have at play in the marketplace, are 12,000 different standards of operation at 12,000 different banks and S&Ls. We need to have a uniform standard in place. We don't want to repeat some of the problems that we had with regulatory accounting principles in the accounting area of the last decade.

Chairman FLAKE. And I agree wholeheartedly. I don't think we want—we can—the judgment probably of the majority, but I think even when we look back on the S&L problem, it is a minority that got into the industry that caused the problems for everybody. And I think that the key is to try and work toward a standard.

Mr. Lewis, in terms of the consumer group and the consumer issues, and you have sat through most of this hearing, where do you feel the threshold might be most appropriately adjusted and still protect the interests of the consumer?

Mr. LEWIS. Well, although I did not point out in our written statement, I would like the subcommittee to be aware that the CFA did oppose the raising of the threshold to the $100,000 level from the originally set $50,000, and then, of course, there was originally no de minimis exemption.

Again, we do feel that consumers benefit from the evaluation of collateral at whatever size of the real estate asset being evaluated by a certified and licensed appraiser or evaluator. That results in integrity in the marketplace, it also provides consumers with the opportunity for redress should they feel that they have been mistreated. And one of the concerns we have about the industry's proposal is that we simply have in-house evaluators that are not licensed conducting evaluations of real estate collateral, because in that situation, a consumer would not have any legal handle with which to pursue a claim of mistreatment. So, again, we feel that all real estate collateral ought to be subject to uniform standards by licensed evaluators of collateral.

Chairman FLAKE. But even with uniform standards, though, you get, I guess, value is in the eye of the beholder. I had a property evaluated. One appraiser gave it 195. One appraiser gave it 245. The bank gave it 225. And I only got three appraisals, because as a Congressman, I wanted to make sure that no one had questions about what I was paying for the particular piece of property.

The interesting thing of that is, in most instances, is it the bank appraisal ultimately that drives what is actually going to be loaned on that particular property?

Mr. MACIELAG. I would think so.

Chairman FLAKE. In most cases, that would be the case.

Mr. MACIELAG. Yes, it is the bank's money.

Mr. GEITHNER. I might add, in our case, to some extent, yes. But we also rely upon the assessment of the local jurisdiction and we also look at that as how do we get paid, not whether or not we are going to foreclose on the house and are trying to sell it. We want to get paid by the individual's ability to repay the loan. The collateral is secondary.

I might add, Mr. Chairman, since the mid-1970's, the bank regulatory agencies have required banks to have written loan policies and I would suspect that, in most cases, those written loan policies do include some specifics regarding some appraisals.

If the subcommittee would be interested, I would like to provide you a copy of ours.

Chairman FLAKE. We would include that into the record, we would be happy to do that.

I guess the question becomes what happens if with standards you can have a disparity, as in my case, that runs a $50,000 differential, what happens if there are no standards, you know? Where do you set the parameters here, and I am just trying to work through the process and just see ultimately who makes the decision, and that is the banker in this case.

Mr. MACIELAG. And I think in the case of loans under $250,000, if we see a complex situation that we are not—we don't feel comfortable with, our own judgment, we certainly will bring in an outside appraiser, and we do it many times when we get into a situation where we are not really sure. Other times when it is clear and it is cut and dry, then we do the evaluation ourselves.

Chairman FLAKE. That has to be an important part of the process because, I mean, one of you mentioned earlier that in terms of bank judgment, you made a decision based on a loan, I think it was in your testimony, it was basically a character loan. You looked at it, you saw it was a good loan, you dealt with the persons before. But in many instances, that will not be the case, certainly in a lot of our urban communities where there are no branches, there are no relationships that have already developed with the banking entity who has been called upon now because someone in that community needs a loan.

I think the key here is to make sure that there is a fairness in the process, and I am not talking about fair lending laws on paper. I am talking about a fairness in the process that says that although you don't know the individual, that whomever the evaluator representing the bank is, is going to do a fair analysis and not do analysis based on some preconceived notion of either that community or that individual's inability to be able to pay by virtue of the fact of their color, or the ZIP Code, or whatever other kind of decisions that—other kind of variables that one would put in, that has nothing, absolutely nothing to do with the ability to repay the loan. And I guess there is a fear for some of us in urban communities who have seen the best of banks and the worst of banks, who wonder if, in fact, raising the threshold does provide another opportunity for escape from fulfilling a responsibility that in many institutions has not been met to the degree of what we had anticipated by virtue of laws that are already in place.

Mr. GEITHNER. Mr. Chairman, if we found an appraiser doing any of the things you say, he would no longer appraise for us.

Mr. MACIELAG. I think those people who might do what you just suggested, to be blunt about it, this process isn't going to turn them around. I mean, they are either going to do it or they are not.

And if they are out there, I don't think that an outside appraiser is going to make a difference. It comes down to the character and integrity of the bankers, and the in-house appraiser doesn't participate in the credit decision, his job is to go out there and determine what that property is worth on behalf of the bank. There is every incentive for him to get it right. Because, again, we are in the business of making loans to make money and if he appraises low, we don't get the business. If he appraises high, we may be taking more risks than we want to take, so I think our motive is to get it right.

Chairman FLAKE. But being in the business of making loans to make money, the fertile field of opportunity that exists within urban communities has been ignored all too often. And that is the problem for some of us in terms of that person who comes to represent the bank does not see that at the fertile fields that it actually represents. And, you know, I guess the concern becomes one of certainly maintaining safety and soundness, you will never get an argument from me against that.

But also maintaining fairness in the process of that evaluation, and whether or not the individual who is controlled by the bank, unless the bank has a serious commitment for community reinvestment, being willing to say to that person, now, you know, you are going into a community we may not be serving, well, you may not have any experience there, but we want you to use the same basic standard that is consistent with the policy of the bank, and the policy of the bank is no redlining, the policy of the bank is that we are full participants in community reinvestment without regard to color or gender or whatever other kind of factors there might be. And I guess the concern is narrowing the scope of those who would have an opportunity to do an analysis brings a great deal of concern for some of us.

Mr. MACIELAG. Mr. Chairman, I am not in an urban situation, but I am in a rural situation with lots of low- and moderate-income folks, and I can say that our analysis of the originations, indicates that we do about 50 percent of our lending, in the last year, to low- and moderate-income clients, small business and farmers. I mean, this is the kind of thing that we do. And the secondary mortgage market requires, as you were discussing earlier, requires the Fannie Mae/Freddie Mac appraisal and the precise reason we are able to do what we do is because the secondary market excludes so many people.

There are often situations that don't fit the cookie-cutter approach of the secondary market. That is what community banks do best. We are able to go out and find some reason to make that loan, either character or although the property doesn't quite meet the requirements of the secondary market, but we can see that the value is there, so I just——

Chairman FLAKE. Well, low and moderate doesn't trouble me as much as black and white, and male and female. And you know that is where our problem really is and somehow or another we have to make sure that in the midst of whatever changes we make, we protect the interests of all persons to have access. And I have prov-

en that by access to the sources of capital, many of those areas could be turned around if people would just take off the blinders.

Thank you very much.

It has been a good panel and I appreciate your coming.

[Whereupon, at 1:14 p.m., the hearing was adjourned.]

APPENDIX

March 1, 1994

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ONE HUNDRED THIRD CONGRESS

SUBCOMMITTEE ON GENERAL OVERSIGHT, INVESTIGATIONS, AND THE RESOLUTION OF FAILED FINANCIAL INSTITUTIONS

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

ROOM 139, FORD HOUSE OFFICE BUILDING

WASHINGTON, DC 20515-6056

OPENING STATEMENT

OF

HONORABLE FLOYD H. FLAKE, CHAIRMAN

SUBCOMMITTEE ON GENERAL OVERSIGHT, INVESTIGATIONS AND THE RESOLUTION OF FAILED FINANCIAL INSTITUTIONS

ON

TUESDAY, MARCH 1, 1994

Good Morning. I would like to welcome my colleagues on the subcommittee and our witnesses and to thank them for their prepared statements. Today's hearing will focus on the impact of raising from $100,000 to $250,000 the threshold at and below which real estate-related financial transactions do not require licensed or certified appraisals as outlined under Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 or FIRREA. Before I begin my opening remarks, I would like to express my appreciation to Congressman Charles Schumer for requesting this hearing so that we might review the issues involved concerning the proposed threshold increase and to identify possible consequences of such an increase on the taxpayer, consumers and financial institutions.

Today's hearing is important in that we will receive testimony from the regulators who are proposing this rule, from the states who have implemented the guidelines set forth in FIRREA, from the bankers who are trying to meet their communities' credit needs in a safe and sound manner and from the GAO who is about to complete the first of two congressionally-

mandated studies of appraisals in connection with real estate-related financial transactions which fall below the threshold level. It is worth noting that 1993 was the first year that Title XI was fully implemented and the related federal and state regulatory programs were in complete operation. There are many important provisions contained in this proposed rule; however, the driving force for this proposal which has also been the object of controversy and concern is the threshold increase to $250,000.

As you may be aware, the objectives of the proposal are to reduce "regulatory burden while requiring Title XI appraisals when such appraisals enhance the safety and soundness of financial institutions or otherwise further public policy." This proposed rule would exempt the requirement for a Title XI appraisal on about 94% of all 1-4 family residential real estate transactions thereby increasing the potential for loss. While it is argued that a significant portion of the residential mortgages will be sold to the secondary market in which case a licensed or certified appraisal will be required to qualify for purchase by Fannie Mae or Freddie Mac, I am not sure if we should be in a situation where private industry and GSEs in requiring Title XI appraisals are responsible for sound institution operation but the regulators are not. Since the secondary market does not have a threshold level many borrowers and portfolio lenders will see little benefit from this proposal. And for the real property that falls below the *de minimis* level and will not be sold to the secondary market, an appraisal, especially for low-income borrowers, will probably be the only validation of the purchase price the consumer will have access to. Also, retention of such property in an institution's portfolio could adversely affect a financial institution's liquidity in its nonconformance with the quality standards of secondary mortgage markets. Thus, the requirement for a licensed or certified appraisal not only assures the lender that the property will adequately stand for collateral against the loan, the appraisal can serve as a consumer protection measure. One should not disengage consumer protection from safety and soundness. The key is to find the right balance between effective regulation and short-cuts in the process, between sound business practices and flexibility. We

need something that makes sense for the regulators, for banks and thrifts and for consumers.

One of the public policy interests that Title XI was to achieve was for real estate appraisals to be "performed in writing, in accordance with uniform standards, by individuals whose competency has been demonstrated and whose professional conduct will be subject to effective supervision." The proposed rule before us is significant. The median sale price for residential property is about $96,000 and the average small business loan size is about $155,000. A commercial loan borrower might enjoy lower up-front costs if a Title XI appraisal is not required; however, lending institutions could face increased risk of loss absent an appraisal by a qualified, independent appraiser. A home is probably the largest and most important purchase a consumer will make so while an appraisal is not an exact science, a person should have to meet certain educational and experience criteria to determine the value of a piece of property and should be under state supervision. Some of the questions before us are: what standards will evaluators function under? will they give an independent and objective assessment of the value of property? could they be influenced by how much the bank wants to lend? what threshold level is appropriate? and is raising the threshold contrary to congressional intent of establishing uniform appraisal standards in 1989?

With that I would like to welcome our first panel of witnesses. We have before us Ms. Helen Hsing, Associate Director, Financial Institutions and Markets Issues, General Accounting Office; Ms. Susan Krause, Senior Deputy Comptroller for Bank Supervision Policy, Office of the Comptroller of the Currency; John Downey, Deputy Director for Regional Operations, Office of Thrift Supervision; Thomas Inserra, Chief Appraiser, Resolution Trust Corporation; and Diana Garmus, Acting Chairperson, Appraisal Subcommittee of the Federal Financial Institutions Examination Council.

For our second and third panels we will broaden our discussion by hearing testimony from appraisal organizations, state regulatory agencies, consumers and bankers.

Before we begin with the GAO we will hear from my colleagues.

REMARKS OF
CONGRESSMAN CHARLES E. SCHUMER
BEFORE THE
SUBCOMMITTEE ON GENERAL OVERSIGHT, INVESTIGATIONS
AND RESOLUTION OF FAILED FINANCIAL INSTITUTIONS
OF THE
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

MARCH 1, 1994

I want to commend Chairman Flake for his initiative in holding this hearing and to thank him for allowing me to participate as a member of his panel.

The subject of this hearing is proposed federal banking agency regulations that would exempt real estate transactions under $250,000 from rules that require an appraisal by a state certified or state licensed appraiser. The current threshold is $100,000. This proposed change raises important concerns about the risk it poses for the safety and soundness of our financial institutions and its impact on the ability of consumers to rely on a qualified estimate of value to confirm the price when they buy their homes.

Mr. Chairman, when the savings and loan and bank failures of the 1980's were examined, it became apparent that a staggering number of faulty and fraudulent real estate appraisals contributed to huge losses and failures to federally insured financial institutions. The American taxpayer had to pay for much of these losses through the deposit insurance system.

In the wake of this disaster, it was discovered that real estate appraisers were not required to meet any qualifications, were not subject to any particular governmental oversight or professional discipline, and that appraisals were not being conducted in accordance with uniform standards. Congress responded by enacting Title XI of FIRREA in 1989. Title XI simply required that real estate appraisals be conducted by individuals who have demonstrated their qualifications to state authorities and obtained a license or certification. It also required that appraisals relied upon in transactions by federally insured financial institutions be conducted in accordance with uniform standards.

Certain facts are as valid today as they were in 1989 when Congress passed Title XI of FIRREA: The federal requirement that a state licensed or certified appraiser perform real estate appraisals protects the safety and soundness of financial institutions and hence the federal deposit insurance funds. It reduces the likelihood that unqualified individuals will produce faulty appraisals. It reduces the likelihood that appraisers might succumb to pressure to over-value or under-value collateral, since doing so would carry the risk of losing state certification or license.

That these benefits flow from the federal requirement of state licensed or certified appraisals is as true today as it was

in 1989 when Congress passed Title XI. In contrast, there has been no evidence to show that the current federal requirement for a state licensed or certified appraisal carries such undue or disproportionate costs that would warrant abandoning the requirement entirely for real estate loans under $250,000. Yet, this is what the pending regulations propose to do. There also has not been evidence shown that there are too few state licensed or certified appraisers to meet the needs of financial institutions making collateralized real estate loans after FIRREA. Nevertheless, the banking regulators have proposed regulations that would exempt over 90% of all residential real estate transactions and hundreds of thousand of collateralized commercial loans from the current appraisal requirements.

When borrowers default, the value of collateral can be the only thing that stands between a lender and insolvency, or between an insolvent financial institution and the deposit insurance funds. An accurate appraisal is an important link in the chain to assure safety and soundness and the protection of American taxpayers.

For most consumers, the purchase of a home is by far the largest, single financial transaction of their life. A qualified, state licensed or certified appraisal helps to protect homebuyers from being cheated and gives them the comfort and

peace of mind of knowing that they are not overpaying when they buy their home.

Mr. Chairman, as you know, late last year I wrote to the Comptroller of the Currency as well as the other three banking regulators opposing the proposed increases in the thresholds from $100,000 to $250,000. I was delighted that you joined me in that letter and that you are holding today's hearing to examine this important topic. I would hope that there is a solution that eliminates any unnecessary costs in real estate loan transactions without creating undue risks for the safety and soundness of our financial institutions or depriving American consumers of the benefits of a qualified opinion of the value of their homes.

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on General Oversight, Investigations, and the Resolution of Failed Financial Institutions
Committee on Banking, Finance and Urban Affairs
House of Representatives

Release on Delivery
Expected at
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BANK AND THRIFT REGULATION

Observations on Proposed Changes To Appraisal Requirement

Statement of Helen H. Hsing
Associate Director, Financial Institutions and Markets Issues
General Government Division

GAO/T-GGD-94-102

BANKS AND THRIFT REGULATION:
Observations On Proposed Changes to Appraisal Requirements

SUMMARY OF STATEMENT BY HELEN H. HSING, ASSOCIATE DIRECTOR
FINANCIAL INSTITUTIONS AND MARKETS ISSUES
GENERAL GOVERNMENT DIVISION

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) mandated appraisals for many real estate transactions made by federally regulated financial institutions, including banks, thrifts, and credit unions. Specifically, Title XI of the act required appraisals to be written, comply with uniform standards, and be done by individuals who have demonstrated competency and whose professional conduct is subject to effective supervision. Currently, implementing regulations generally require Title XI appraisals for all transactions over a $100,000 threshold.

In June 1993, the Federal regulators, except for the National Credit Union Administration, proposed a rule change that would, among other things, raise the threshold to $250,000 and thereby reduce the number of transactions requiring appraisals--allowing instead less formal evaluations. The rule change is intended to reduce regulatory burden, improve credit availability, and serve federal financial and public policy interests without threatening the safety and soundness of financial institutions. However, the rule change elicited contentious public reaction. Many commenters charged that elements of the proposal lacked substantial supporting evidence.

In this regard, GAO's preliminary work indicates that (1) qualitative differences between appraisals and evaluations are unknown, (2) the effect on the deposit insurance funds is difficult to determine because of the many variables affecting safety and soundness, (3) the extent of exempted transactions could vary widely by institution, and (4) little is understood about the impact on consumers. GAO expects to soon complete its initial assessment and report its results to date.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here to discuss the "de minimis" appraisal threshold--the dollar level regulatory agencies have set for exempting real estate transactions of federally insured banks, thrifts, and credit unions from appraisal requirements. The Housing and Community Development Act of 1992 required us to do two studies of appraisals and evaluations[1] for loans under that threshold. While this work is in process, we would like to share with you our preliminary results.

In this testimony, I will discuss: (1) the current appraisal legislation and requirements; (2) the proposed change in the threshold; (3) the arguments for and against the proposal; (4) the regulators' response to public comments; and (5) our preliminary observations on the proposal's effect on valuations of real estate, deposit insurance funds, and consumers.

CURRENT APPRAISAL LEGISLATION AND REQUIREMENTS

In 1986, the House Committee on Government Operations reported that fraudulent real estate appraisals played a crucial role in the gradual weakening and ultimate collapse of major financial

[1]Evaluations serve the same purpose as appraisals but do not need to meet all the detailed requirements of an appraisal.

institutions in the 1980s.[2] In response, Congress enacted appraisal reform provisions in the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Title XI of the act required real estate appraisals for all federally related real estate transactions[3] made by a financial institution regulated by the federal government. The act required appraisals to be written, comply with uniform standards, and be done by individuals who have demonstrated competency and whose professional conduct is subject to effective supervision.

Title XI also required states to develop and implement programs for licensing and certifying appraisers. Generally, a certified appraiser must meet higher qualification standards than a licensed appraiser. In California, for example, both types of appraisers must have 2,000 hours of real estate experience, but a certified appraiser must have at least 1,000 hours in non-residential appraisal work. Licensed appraisers in California must have at least 75 classroom hours in specific subjects, while certified appraisers must have an additional 90 hours covering more subjects.

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[2] Impact of Appraisal Problems on Real Estate Lending, Mortgage Insurance, and Investment in the Secondary Market (House Report 99-891, Sept. 25, 1986).

[3] Federally related transactions are those real estate transactions entered into by a federal financial institution regulatory agency or a financial institution regulated by the federal government. This includes banks, thrifts, and credit unions. It does not include real estate transactions of mortgage bankers, brokers, pension funds, and insurance companies.

Title XI required the financial institution regulators and the Resolution Trust Corporation (RTC)[4] to issue regulations that prescribe (1) the categories of federally related real estate transactions requiring appraisals by a certified appraiser and those by a licensed appraiser and (2) appropriate standards for the performance of appraisals for transactions made by federally regulated financial institutions. Accordingly, each of the regulators and RTC published separate regulations in July and August of 1990. Except for the Federal Reserve Board, all the regulators set the threshold for an appraisal at $50,000 and above. The Federal Reserve Board's threshold was $100,000.

All the regulators concluded that Title XI and safety and soundness banking principles do not require all federally related real estate transactions to have appraisals performed. Each of the regulators also found appraisals unnecessary for loans below their dollar threshold levels because of low loss rates. The regulators required that evaluations, instead of appraisals, be performed for most loans exempted from the appraisal requirement. Later in this testimony, I will discuss in more detail how evaluations differ from appraisals.

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[4]The federal financial institutions regulatory agencies identified in Title XI included the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), and the National Credit Union Administration (NCUA). In addition, RTC as the conservator or receiver of failed thrift institutions was covered by Title XI.

In March and April of 1992, the FDIC, OCC, and OTS amended their appraisal regulations, raising the threshold level to $100,000; RTC later did the same. NCUA maintained its threshold at $50,000. The regulators also indicated which loans require services of a certified appraiser and which of a licensed appraiser. In general, certified appraisers are required for appraisals of commercial and complex[5] residential real estate loans for amounts of $250,000 or greater. All other loans not exempted from the appraisal requirement could be performed by either a licensed or certified appraiser. Table 1 of appendix I contains more detail on current appraisal requirements by type and size of loan.

In August 1992, the Office of Management and Budget (OMB), in response to a statutory mandate, issued a report on increasing the threshold beyond $100,000 for commercial real estate.[6] The OMB report concluded that an increase in the de minimis level for commercial real estate is not appropriate until the appraisal reform provisions of FIRREA can be evaluated after full implementation of the act and more reliable data.

The appraisal industry had challenged the regulators' authority

[5]Complex residential appraisals are those where the property, form of ownership, or market conditions are atypical.

[6]De Minimis Levels for Commercial Real Estate Appraisals, Office of Management and Budget, August 1992.

to establish and implement appraisal thresholds, asserting that Congress intended that appraisals be part of all real estate related transactions. In October 1992, Congress affirmed the regulators' authority to establish a threshold provision in the Housing and Community Development Act of 1992. The act allowed the regulators to establish thresholds provided they determine in writing that such thresholds do not threaten the safety and soundness of financial institutions. In the fall of 1992, the regulators issued revised guidelines to financial institutions on evaluations.

PROPOSED APPRAISAL REQUIREMENT CHANGES ARE CONTROVERSIAL

In June 1993, the regulators proposed a change in their regulations that would further reduce the number of transactions requiring appraisals. Among other things, the proposed rule change would (1) increase the de minimis threshold to $250,000, (2) expand and clarify existing exemptions to the appraisal requirements, and (3) identify additional circumstances under which appraisals would not be required. The regulators contend that the proposed change would: reduce regulatory burden on bank~ resulting from Title XI appraisal requirements; improve credit availability; and serve federal financial and public policy interests without threatening the safety and soundness of financial institutions. Table 2 of appendix I contains information on how the proposed change would affect appraisal

requirements by loan size and type.

The regulators based their decision to raise the threshold on the 1992 OMB report and their experience with loan defaults. The OMB report referred to a survey conducted by the American Bankers Association of a small sample of lending institutions (246 banks). The survey indicated that losses on commercial real estate loans did not significantly increase until the loan size exceeded $500,000. The regulators also reported having experienced relatively low losses with the $100,000 threshold because most loans under $100,000 were secured by residential real estate. They contended this would also be the case for most loans under the proposed $250,000 threshold.

The proposed change elicited contentious public reaction. Increasing the threshold from $100,000 to $250,000 was the most controversial element of this proposal. Many commenters charged that elements of the proposal lacked substantial supporting evidence. The first comment period, which closed in July 1993, resulted in thousands of comment letters. To address public concerns, the agencies submitted supplemental information for the public record and re-opened the comment period in November 1993.

ARGUMENTS FOR AND AGAINST THE PROPOSAL

Most letters in opposition to the proposed change were from

individual appraisers; other opposing comment letters were from state appraisal boards, the Consumer Federation of America, the Mortgage Insurance Companies of America, the National Association of Realtors, the Appraisal Institute, the Appraisal Foundation, and the Appraisal Standards Board. The following were key concerns expressed.

-- Safety and soundness problems would result from the threshold increase because of the sheer volume of loans that would be exempted from the appraisal requirement.

-- In permitting evaluations, regulators expose financial institutions to risk from inadequate appraisals which had a significant role in financial institution failures.

-- Small business lending, or the "credit crunch", is not materially affected by appraisal cost or appraiser availability.

-- Any problems in obtaining appraisals have been mitigated by increased numbers of appraisers and stabilized appraisal fees.

-- Loan applicants would be affected negatively if valuations of property were not done by individuals

with demonstrated competency.

Supporting the threshold increase were banks, state banking associations, the American Bankers Association, and the Independent Bankers Association of America. The following were key points raised in support of increasing the threshold.

-- Raising the threshold would not result in more risk to deposit insurance funds because the loss rate associated with loans under $250,000 is low.

-- Inadequate appraisals had not been shown to be a significant factor in bank failures or losses, and sound business judgment leads banks to obtain appraisals whenever needed.

-- An increase in the threshold would help bank customers get credit by reducing their lending costs and also by expediting loan closing, since the scarcity of appraisers delayed the lending process.

-- Regardless of thresholds, banks would get appraisals for most residential loans because the secondary mortgage market requires them.

The few thrifts that submitted comment letters in response to the

regulators' request for comments were divided in their support for the $250,000 threshold. The Savings and Community Bankers of America, a trade group for the thrift industry, commented that the $250,000 threshold will have little effect on its members as they would continue their practice of obtaining appraisals on loans above $100,000.

REGULATORY RESPONSE TO PUBLIC COMMENTS

In response to concerns about insubstantial evidence, the regulators provided supplemental information on November 10, 1993, related to the proposed $250,000 threshold and invited further public comment. This information included: (1) results of the agencies' surveys of senior bank examiners on the potential effects of the proposed threshold increase; (2) various statistical data on the distribution of loans above and below the current and proposed threshold levels; and (3) data on loans sold in the secondary market. The regulators told us they are reviewing and analyzing the public comments received thus far.

PRELIMINARY OBSERVATIONS ON THE THRESHOLD PROPOSAL

The regulators' proposed increase in the appraisal threshold has the potential to reduce costs to consumers and reduce regulatory burden. While the regulators contend these benefits outweigh the

risks, it is uncertain whether this is in fact the case. Based on our preliminary work, we found little available information on: (1) the qualitative difference between appraisals versus evaluations; (2) the risk to the deposit insurance funds as a result of proposed changes; and (3) the effect on the consumer.

Qualitative Difference Between Appraisals and Evaluations Unknown

Both appraisals and evaluations are intended to validate real estate values. However, appraisals differ from evaluations in terms of standards and requirements. Our work to date suggests that the regulators' guidance on evaluations is being interpreted inconsistently by financial institutions. We have been unable to determine, however, to what extent appraisals differ from evaluations in terms of quality.

The Appraisal Standards Board of the Appraisal Foundation has issued standards governing appraisals termed the Uniform Standards of Professional Appraisal Practice (USPAP). Federal regulations require that appraisals conform to these standards; however, they do not apply to evaluations. In comparing USPAP's guidance with the regulators' guidance on evaluations we found several areas covered by USPAP standards which were not addressed in the regulators' evaluation guidance.

USPAP requires appraisers to: (1) consider three approaches to

value (cost, sales, income) and reconcile the applicability of each approach; (2) consider and analyze any prior comparable sales of property within 1 year for one-to-four family residential units or 3 years for all other property types; (3) identify whether or not the property is in a flood zone, or an environmental hazard area; and (4) consider the effect on use and value of the following factors: existing land use regulations, reasonably probable modifications of such land use regulations, economic demand, the physical adaptability of the real estate, neighborhood trends, and the highest and best use of the property.

Regulators' guidance on evaluations provides financial institutions broad latitude. Individuals performing evaluations do not have to meet specific requirements for education, training, or testing. Instead, the regulators' evaluation guidelines require that the individual performing evaluations must be capable of rendering an unbiased estimate of value and must have training or experience relevant to the type of property being valued. The guidance requires the evaluation reports to be written, include the preparer's name and address, describe the property and its location and use, and contain sufficient information to understand the analysis including the calculations and assumptions used in determining the property's value. In general, the scope of an evaluation is expected to correlate to the complexity of the transaction and type of real estate

collateral.

Our visits to 14 banks and thrifts suggest there is no standard interpretation of what an evaluation is. One bank we visited interpreted regulators' guidance on evaluations as requiring an assessment similar to an appraisal. However, others viewed the guidance as permitting an assessment far different. For example, one bank we visited had evaluations that resembled an appraisal; however, the evaluation was not prepared by a licensed or certified appraiser. Another bank we visited conducted an evaluation that consisted of the loan officer preparing an assessment based solely on the exterior of the property.

Effect on the Deposit Insurance Funds Difficult to Determine

The risk that the proposed threshold poses to the deposit insurance funds is unknown and perhaps not quantifiable. In an earlier report, we found that information to assess the safety and soundness implication of raising the threshold (then to $100,000) was lacking.[7] Our current work to date confirms this is still the case. Regulators do not have comprehensive data on loss rates by size of loan for both residential and commercial real estate. Even with such data, however, the effect of raising the appraisal threshold on the deposit insurance funds may be

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[7]Appraisal Reform: Implementation Status and Unresolved Issues (GAO/GGD-93-19, Oct. 30, 1992).

extremely difficult to determine and the data needed to make the determination may not be feasible to gather.

To assess the risk of loss to the deposit insurance funds, information is needed on a number of factors including: (1) the extent to which evaluations would be used rather than appraisals for loans between $100,000 and $250,000; (2) the qualitative difference between appraisals and evaluations; and (3) the extent to which appraisals affect real estate loan defaults. Further complicating this determination is the fact that there are many variables which affect the safety and soundness of a financial institution, such as the borrower's equity in the property supporting the loan.

We found the regulators did not have information on loss rates by loan size for both commercial and residential real estate. Instead their data showed residential real estate loans as a group had the lowest loss rate. The regulators had no comprehensive data on the loss rate of loans secured by commercial real estate by loan amount. Regulators acknowledged they lacked comprehensive data on loss rates by size of loans because collecting such data would have been excessively burdensome to the industry.

In supporting their proposal, regulators surveyed their senior examiners. Most senior bank examiners the regulators surveyed

believed the $250,000 threshold would not pose a serious risk to bank safety and soundness or deposit insurance funds. For example, senior examiners from one regulator explained that the level of losses from residential real estate loans was low, and that such loans comprised most of those under $250,000. However, some examiners the regulators surveyed believed that inadequate appraisal practices for loans under $250,000 contributed to the failure of financial institutions. For example, three OTS regional directors indicated inadequate appraisals for loans less then $250,000 contributed to significant financial losses to thrifts.

Secondary Market Appraisal Requirements Limit Exemptions

Regulators believe changing the threshold would pose little risk to the deposit insurance funds because many residential loans are sold to the secondary market which requires appraisals. Their data showed over 60 percent of loans originated from 1990 through 1992 were sold to federal credit agencies and federally sponsored mortgage pools that required appraisals on all loans purchased.[8] Thus, a higher threshold would not eliminate appraisals for those loans.

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[8]Federal credit agencies include the Government National Mortgage Association, Farmers Home Administration, Federal Housing Administration, Veterans Administration, Federal National Mortgage Association, Federal Land Banks, and Federal Home Loan Mortgage Corporation. Federally sponsored mortgage pools include Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation

While it is true that many loans are sold in the secondary market, problems may exist in relying on the secondary market. For example, the two largest purchasers of mortgage loans on the secondary market, the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association, currently limit their purchases of single family residential loans to a maximum amount of about $203,000. Therefore, the appraisal requirements of the secondary market would not affect these loans between $203,000 and the proposed $250,000 threshold. The volume of such loans falling between these two amounts is not known.

Extent of Exempted Transactions Could Vary Widely

To determine the possible effects of the threshold change, the regulators estimated the distribution of residential real estate loans based on the sales price of the real estate. They estimated that over 90 percent of the homes sold in the first half of 1993 had mortgage loans of $250,000 or less. About half of the homes sold during this period were estimated to have mortgages of $100,000 or less.

Our discus. ions with bankers suggest that the effect of the $250,000 threshold could vary widely depending on the composition of the institution's loan portfolio. Specifically, the $250,000 threshold could exempt virtually all small or rural banks and thrifts from needing an appraisal for their real estate related

loans. For example, one rural bank we spoke with had about 87 percent of its entire real estate portfolio falling under the proposed $250,000 threshold. At a multi-billion dollar financial institution, we were told that about two-thirds of its entire real estate loan portfolio consisted of loans for amounts of $250,000 or less.

Effect On Consumers Uncertain

The proposed threshold, to the extent it increases the number of loans subject to an evaluation, may result in lower costs to the consumer and speedier loan processing. However, limited information exists on whether consumers may be adversely affected by having an evaluation done and whether they have legal recourse for evaluations performed incompetently.

Little quantitative information is available on the cost of appraisals versus evaluations. Our interviews of financial institution officials yielded some insight into costs. Appraisal fees at 11 of the 14 institutions we visited as of February 1994, ranged from $350 to $7,500 for commercial real estate and from $150 to $450 for residential real estate. In contrast, the fees being charged for evaluations were lower than the appraisal fees (in the case of commercial real estate significantly lower) and the range not as extreme. The average cost of evaluations varied from zero to $175 for residential and commercial real estate.

This cost information suggests that consumers may realize savings if lenders use evaluations rather than appraisals in making loan decisions and pass directly to consumers the lower cost of evaluations.

To what extent this sizeable differential would affect small business commercial real estate lending is unknown. Some bank officials have told us that costly appraisal requirements could deter small business commercial real estate lending. Other bank officials we interviewed, told us that the cost of an appraisal is not a major factor in the borrower's decision to obtain a loan.

Another effect of an increased appraisal threshold might be to speed loan processing through use of evaluations rather than appraisals. In October 1992, we reported that some banks, particularly in rural areas, were experiencing a shortage of licensed or certified appraisers. Our ongoing work suggests that appraiser availability may still be an issue for rural banks and thrifts. Small rural banks told us that appraiser availability is still a problem for their institutions. For example, one bank official told us that the nearest licensed or certified appraiser was located 40 miles away from the bank. This official said that obtaining a commercial real estate loan takes an average of 2 months, in part, due to problems in scheduling an appraiser. The banks and thrifts located in metropolitan areas told us that the

average times for a commercial real estate appraisal ranged from 2 to 4 weeks.

Although there may be cost savings accruing to the consumer as a result of having an evaluation performed, it is not clear what the consumer may lose in terms of consumer confidence and access to information. Consumers, in having an appraisal performed, gain some measure of confidence that the biggest single purchase they are making is supported by market value. Regardless of the threshold, consumers still can obtain an appraisal if they are willing to pay for it.

The proposed increase in the appraisal threshold, which would likely result in greater numbers of real estate lenders using evaluations instead of appraisals, may also result in a lessening of consumers' access to information. Current federal laws and regulations give loan applicants the specific right to obtain copies of the written appraisal reports used in connection with their application for a loan that is or would have been secured by residential property. However, the loan applicant's right to the written evaluation report may need to be clarified. While at least one regulat-r believes that current laws and regulations give borrowers access to evaluations, two of the institutions we visited told us it was their policy not to provide borrowers with copies of the evaluation report. One explained that since they did not charge the borrower for the in-house evaluation, they did

not have to provide it.

In addition, loan applicants can complain to the state appraisal licensing and certification organization if they feel that the appraiser has acted unprofessionally or negligently. No such mechanism exists for evaluations that are performed by someone other than a licensed or certified appraiser.

CONCLUSIONS

Regulators plan to issue a final rule in the near future that would, among other things, increase the appraisal threshold to $250,000, exempting more real estate loans from the appraisal requirement. The rule change is intended to reduce regulatory burden, improve credit availability, and serve federal financial and public policy interests without threatening the safety and soundness of financial institutions. However, the rule change elicited contentious public reaction. Many commenters charged that elements of the proposal lacked substantial supporting evidence. In this regard, our preliminary work indicates that (1) qualitative differences between appraisals and evaluations are unknown, (2) the effect on the deposit insurance funds is difficult to determine because of the many variables affecting safety and soundness, (3) the extent of exempted transactions could vary widely by institution, and (4) little is understood about the impact on consumers. We expect to soon complete our

initial assessment and report our results to date.

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Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions that you or the Subcommittee may have.

Table I.1: Appraiser Requirements For Banks and Thrifts as of March 1, 1994, by Loan Amount

Dollar amount of loan	Residential Real Estate Loans	Commercial Real Estate Loans
$100,000 or less	None required	None required
Over $100,000 but less than $250,000	Licensed or certified	Licensed or certified
$250,000 to less than $1 million	Licensed or certified[a]	Certified
$1 million or more	Certified	Certified

Note: These requirements do not apply to NCUA.

[a] Regulations require certified appraisers to perform appraisals of complex residential appraisals.

Source: Code of Federal Regulations.

Table I.2: Revised Appraiser Requirements For Banks and Thrifts Based on the June 4, 1993, Proposal

Dollar amount of loan	Residential Real Estate Loans	Commercial Real Estate Loans
Less than $250,000	None required	None required
$250,000 to less than $1 million	Licensed or certified[a]	Certified
$1 million or more	Certified	Certified

[a] Regulations require certified appraisers to perform appraisals of complex residential appraisals.

Source: Code of Federal Regulations and June 4, 1993, Federal Register.

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STATEMENT OF
SUSAN F. KRAUSE
SENIOR DEPUTY COMPTROLLER FOR BANK SUPERVISION POLICY
OFFICE OF THE COMPTROLLER OF THE CURRENCY
Before the
SUBCOMMITTEE ON GENERAL OVERSIGHT, INVESTIGATIONS, AND THE RESOLUTION OF FAILED FINANCIAL INSTITUTIONS
of the
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
March 1, 1994

Mr. Chairman, I am here today to discuss the recent proposal made by the Office of the Comptroller of the Currency (OCC), in conjunction with the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Board (FRB) and the Office of Thrift Supervision (OTS), regarding real estate appraisals. My testimony today focuses on the agencies' proposal to increase the appraisal threshold from $100,000 to $250,000 and other significant changes in the regulation. The OCC believes these changes will reduce regulatory burden without posing significantly greater risk to financial institutions. This is because the kinds of real estate secured loans that caused banks and thrifts to fail, the problems which Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) was enacted to address, will remain covered by this proposal. Finally, I will comment on how the consumer will benefit directly from this proposal.

APPRAISAL REGULATION - BACKGROUND

Among its provisions, Title XI of FIRREA requires the federal financial institutions regulatory agencies to determine which real estate transactions require appraisals. For those transactions requiring appraisals, we are to determine which ones require the services of a certified appraiser as opposed to a licensed appraiser. The OCC, FDIC, FRB, and OTS (the agencies) initially published a notice of proposed rulemaking that provided an exemption for real estate loans of $15,000 or less. However, in response to the public comments we received, the OCC increased the threshold level to $50,000 in a final rule that we published in August, 1990.

In April, 1992, the OCC, FDIC and OTS increased the appraisal threshold level from $50,000 to $100,000, the level the FRB established in August, 1990. In December 1992, Congress also confirmed that the agencies could establish a threshold above which the services of a state certified or licensed appraiser are required in connection with federally related transactions. To do so, the agencies must determine in writing that the threshold does not represent a threat to the safety and soundness of financial institutions.

APPRAISAL REGULATION - CONTINUING PROBLEMS

After the OCC revised its appraisal rule in April 1992, we continued to receive comments about its restrictiveness. The comments emphasized that the regulation was too stringent and was continuing to restrict credit availability. For instance, homeowners refinancing residential loans were required to obtain appraisals even when the appraisal added little to the bank's refinancing decision. Additionally, some commercial borrowers reportedly balked at the cost of appraisals and chose not to complete loan transactions.

There also were reported instances of lenders foregoing real estate collateral--and making unsecured loans-- because of the cost of an appraisal. In such cases the appraisal regulation had the unintended effect of potentially increasing risk to financial institutions.

Finally, there has been confusion among lenders on how they should interpret and apply the regulation. Generally, the appraisal regulation requires an appraisal by a licensed or certified appraiser, unless an exemption applies. Although the present regulation contains numerous exemptions, bankers frequently order appraisals, even if they think they are unnecessary, because they are uncertain whether an individual transaction fits within an existing exemption. Many bankers take this conservative approach to ensure that they will not be cited for a violation of law and possibly assessed civil money penalties.

THE ANALYTICAL PROCESS LEADING TO THE PROPOSAL

Based on the problems noted above, the volume of inquiries we have received, and our own experiences with administering the appraisal regulation, the OCC identified certain aspects of the appraisal regulation that required our attention.

Moreover, as required by the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), the OCC and the other federal regulators of financial institutions undertook a review of all regulations, including the appraisal regulation, and its related policies and procedures. One of the issues we reviewed was whether the appraisal regulation, and our related policies and procedures, are needlessly standing in the way of extending loans to creditworthy borrowers. The agencies accelerated their review efforts in response to President Clinton's March 10, 1993 Credit Availability Program, which focused on lending issues that affected small- and medium- sized businesses.

The OCC believes this proposal addresses those concerns without jeopardizing safety and soundness, federal financial or public policy interests, because it continues to require Title XI appraisals when such appraisals enhance the safety and soundness of financial institutions.

THE PROPOSED RULEMAKING

The OCC issued a Notice of Proposed Rulemaking on June 4, 1993, containing a number of amendments to the appraisal regulation. The most significant changes, which I will discuss today, would: (1) raise the appraisal threshold to $250,000, (2) identify additional exempt transactions, (3) further clarify existing exemptions, (4) allow appraisers to use the Departure Provision of the Uniform Standards of Professional Appraisal Practice (USPAP), and (5) allow use of appraisals ordered by other financial services institutions.

Establishing a Threshold

Establishing an appropriate threshold, above which a Title XI appraisal is required, calls for balancing the need to ensure safety and soundness with a desire to eliminate unnecessary regulatory burden. Drawing that line is not easy. The commenters on this proposed rulemaking suggested thresholds that ranged from zero to $5 million. Our objective is to require the use of licensed or certified appraisers for those transactions which may represent a threat to the safety and soundness of financial institutions. We believe we can and should accomplish this without requiring that consumers and bankers bear unnecessary costs.

The proposed increase in the threshold level reflects our best effort to ensure that higher risk transactions will continue to require appraisals, while providing regulatory relief for those transactions posing less risk. Our reasons for increasing the threshold level are based on a number of factors which I will further describe.

Estimated Impact will be Low

There is evidence to suggest that the majority of real estate loans below the $100,000 threshold are 1-to-4 family residential transactions. Likewise, there is evidence to suggest that the vast majority of loans between $100,000 and the proposed $250,000 threshold are 1-to-4 family residential transactions. Moreover, according to the June 1993 Call Reports, only approximately 11% of the outstanding dollar volume of business loans is between $100,000 and $250,000. Therefore, we believe the proposal to increase the threshold has the largest potential impact on residential real estate loans.

The OCC receives data on banks' loan loss experiences for residential and farm loans from Call Reports. These two types of real estate loans have the lowest loss rates of all real estate loan categories. Our examining experience, and bank-reported loan loss experience, indicate that banks have been able to conduct prudent evaluations of their real estate collateral and control the underwriting risks for residential, business loans and farm loans that fall below

$100,000. There is no reason to believe that increasing the threshold to $250,000 would cause banks to alter the way they underwrite these types of loans. Therefore, banks' loss experience on these loans, whether the loan is between $100,000 and $250,000, or below $100,000 should be similar.

Bankers have stated in comment letters that the $100,000 threshold has not posed safety and soundness concerns, and that a $250,000 threshold would not. Some banks have provided actual real estate loan loss experience for loans less than $250,000, and those losses were minimal. Bankers have also stated that real estate loan losses their banks have incurred for loans less than $250,000 were not appraisal-related.

OCC Experience Confirms Minimal Impact

Our experience in examining national banks also supports our view that raising the threshold would be consistent with safety and soundness principles. The OCC surveyed 20 of its senior bank supervisory personnel last year. We asked them to relate their experience with the impact of raising the appraisal threshold from $50,000 to $100,000 on safety and soundness. They all responded that there was little or no impact on safety and soundness. They also were asked to project what impact on safety and soundness would occur if the threshold was raised to $250,000. Again, the group responded that there should be no impact on safety and soundness. The reasons cited for this conclusion were: 1) the threshold would apply primarily to 1-to-4 family residential loans; 2) credit risk is still diversified under this level; 3) evaluations provide sufficient documentation; and 4) controls for loans under $250,000 are the same as for the pool under $100,000. Additionally, some suggested higher thresholds for larger banks and others suggested a threshold tied to a bank's capital.

Evaluations are Required for Loans Below the Threshold

Banks will continue to be required to evaluate real estate collateral on loans below the threshold amount in accordance with safe and sound banking principles, which are delineated in the OCC's appraisal and evaluation guidelines. Our current guidance, Real Estate Appraisals and Evaluation Guidelines, issued in September 1992, discusses the differences between an appraisal and an evaluation, and requires banks to establish appropriate policies and procedures governing them. For a valuation of real estate to be considered an appraisal, it must conform to the requirements specified in our regulations. While an evaluation does not have to meet all of the detailed requirements of the regulation, it must reflect an unbiased estimate of the value of the real estate and be prepared by a qualified individual. An evaluator must demonstrate competency, expertise, independence, and the ability to render a high quality written report in order to be considered qualified. OCC examiners check for compliance with this policy, including reviewing the quality of evaluations, when examining the real estate lending functions in national banks.

Proposed Threshold Focuses on Most Troublesome Loans

Part of the OCC's reasoning for proposing an increased threshold is that the type of loans that contributed to the savings and loan crisis, and to problems in the banking industry, will remain covered by this regulation. A 1989 GAO study found the most frequent and significant causes of savings and loan failures were excessive concentrations of large real estate construction loans, weak underwriting practices, and inadequate management practices -- not faulty and fraudulent appraisals.

Our experience also indicates that the real estate loans that generated significant losses in commercial banks were multi-million dollar construction loans, not loans below $250,000. Furthermore, banks report that losses on construction loans continue to be the highest of any type of real estate loans. Such loans require our close attention and remain covered by this regulation, regardless of whether the threshold is raised to $250,000.

OTHER PROPOSED AMENDMENTS

The OCC proposes to add six additional exemptions and to modify several existing exemptions to address identified shortcomings and further clarify this regulation. These proposed changes are intended to identify more clearly those situations where an appraisal is not germane to the lending decision. I will highlight the proposed new exemptions and the more significant clarifications to the existing exemptions.

Proposed Business Loan Exemption

A new exemption for business loans would allow banks to extend real estate secured loans of $1 million or less to small- and medium- size businesses, when repayment of the loans is not primarily dependent upon the sale of real estate or rental income from the real estate. This exemption will benefit the small- and medium- sized business owners who want to expand their businesses, purchase new equipment, etc.

This exemption has the support of the General Accounting Office (GAO), which published a report, entitled Regulatory Impediments to Small Business Lending Should Be Removed (September 1993), shortly after we issued our proposal. The report's summary stated: "Specifically, we believe that real estate appraisal requirements can be safely modified when applied to collateral taken as supplementary support for traditional small business loans." The GAO limited its support to real estate-secured small business loans used for working capital and equipment purchases. Another GAO report confirmed that the appraisal regulation is one of the most burdensome regulations to confront commercial lenders and customers in situations where the real estate is taken as additional collateral. This exemption is meant to reduce that burden.

Clarify Abundance of Caution Exemption

Traditionally, banks have taken security interests in borrowers' real estate as an abundance of caution. These security interests provide extra collateral protection against losses. The incentive for a borrower to provide the extra collateral is that a bank generally will reduce the rate of interest on the loan or make the loan on better terms than without this extra margin of security. The abundance of caution exemption in the current regulation can only be used if the terms of a loan are not changed as a result of obtaining the real estate as collateral. This restriction effectively eliminates this exemption as an alternative for banks to use. The proposed rule would clarify that banks may take extra collateral as an abundance of caution without obtaining an evaluation or appraisal on the real estate involved.

Clarify Loan Renewal Exemption

The proposal modifies the exemption for loan renewals. Banks would be able to renew an existing extension of credit, including an advance of additional funds, without obtaining a new Title XI appraisal, if the institution's collateral protection would not be threatened as a result of the transaction.

Evaluations Required Only for Three Exemptions

Under the proposal, only loans that fall below the threshold, or for which the business loan and renewal exemptions apply, require evaluations. The current regulation requires that, for all real estate transactions that are exempt from the appraisal requirements, banks still have to evaluate the collateral based on our existing appraisal and evaluation guidelines. This is another way in which regulatory burden would be reduced.

Proposal Restores Use of the Departure Provision

This proposal would eliminate duplicative appraisal standards and restore use of the Departure Provision, which would allow appraisers to prepare limited appraisals, where appropriate. The Appraisal Standards Board of The Appraisal Foundation, is currently proposing a revision to USPAP. This revision, which the OCC supports, will provide further guidance to appraisers on the appropriate use of the Departure Provision for any real estate-related financial transaction. These two actions, taken together, would provide regulatory relief to both lenders and appraisers.

Accept Appraisals Prepared for Other Financial Services Institutions

Currently, only appraisals prepared for a regulated institution, or ordered by an agent of a regulated institution, can be used by another regulated institution. This proposal would allow a regulated institution to use an appraisal prepared for another financial services institution, such as a life insurance company, when the appraisal was prepared by a licensed or certified appraiser. This proposal could decrease borrowers' costs and the time it takes for banks to

process loans. Borrowers with multiple credit relationships, for example, would benefit from this increased flexibility. Also, banks would have greater flexibility in using appraisals originally prepared for another lender in cases where the borrower has subsequently decided to seek financing elsewhere.

CONSUMER BENEFITS

We believe consumers would benefit from these proposed changes in a number of ways. First and foremost, it is the borrower who pays the direct cost of the appraisal. I have noted numerous ways in which this proposal reduces regulatory burden for banks, and for a bank regulator this is important. Banks bear much of the cost of complying with this regulation, and the proposed changes would reduce these costs. However, the cost of ordering an appraisal from a licensed or certified appraiser is fully passed on to the borrower. Therefore, in those cases where no appraisal is obtained, or when an evaluation is conducted in lieu of a Title XI appraisal, the borrower would save money.

We recently asked our examiners performing examinations to conduct an informal survey of the bankers regarding our proposal. Specifically, we wanted to know if they would use the increased discretion afforded by the proposal to obtain evaluations of real estate transactions below the $250,000 threshold, rather than an Title XI appraisal. The responses were varied, but an interesting pattern did emerge. Urban and suburban banks generally will continue to obtain Title XI appraisals for residential real estate loans because they tend to package most of those loans for resale on the secondary market. Rural banks are more likely to conduct evaluations, unless they intend to resell loans on the secondary market. However, most of the bankers surveyed identified the greatest beneficiaries of the proposal as being small- and medium-sized businesses. This is because they would not automatically have to have a Title XI appraisal--for which the fee can easily be thousands of dollars.

If the proposed amendments are enacted, we would expect that consumers and small- and medium- size business owners will see expedited loan processing at lower cost, and more available credit. Consumers and business owners will benefit because lenders will have more discretion to decide when they can conduct evaluations of their real estate collateral, rather than ordering a Title XI appraisal.

Borrowers, especially small- and medium-sized businesses and farms, should benefit immediately from the proposal to clarify abundance of caution. Because appraisals or evaluations would not be required for real estate collateral taken as an abundance of caution, bankers should be more willing to lend and borrowers will not bear the additional cost of an appraisal fee.

Homeowners refinancing their personal residences could see immediate benefit from our proposal to exempt certain loan renewals from the appraisal requirements. Refinancing transactions could be completed in a more timely manner and at less cost to the consumer. Other borrowers, consumers and businesses, will benefit from our proposals to specify and limit

the types of loans for which evaluations are required.

CONCLUSION

We believe this proposal contains changes that would benefit the banking industry and the public without increasing risk in the system. However, we take very seriously our responsibility to consider all comments, positive and negative, made by interested parties-- those affected directly and indirectly by our proposed revisions. The public interest in this proposed rulemaking has been phenomenal. We received over 5,000 letters from individuals, bankers, appraisers, and others and are carefully evaluating the concerns and issues they raised. Let me assure you that we will work diligently to balance safety and soundness concerns with the desire to reduce unnecessary regulatory burden in making our decisions regarding the final rule.

EMBARGOED
until Mar 1, 10 am

Testimony

of

John F. Downey, Deputy Director

Office of Thrift Supervision

concerning

Real Estate Appraisals

before the

Subcommittee on General Oversight, Investigations
and the Resolution of Failed Financial Institutions

of the

Committee on Banking, Finance and Urban Affairs

United States House of Representatives

March 1, 1994

Office of Thrift Supervision
Department of the Treasury

1700 G Street N.W.
Washington D.C. 20552
202•906•6288

INTRODUCTION

Mr. Chairman and members of the Subcommittee, thank you for inviting me to testify today on the changes to the appraisal regulation that have been proposed by the four Federal banking agencies. Before discussing the specific components of the agencies' proposal, I would like to put the role of appraisals in lending decisions in context and give you a brief summary of Office of the Thrift Supervision's (OTS) appraisal requirements.

Role of an Appraisal In the Decision to Lend

The soundness of real estate loans and investments made by financial institutions depends on the adequacy of the underwriting and analysis used to support these transactions. A real estate appraisal is just one of several important components of the lending process. Real estate lending decisions are not made primarily on the value of the collateral but, rather, on the likelihood that the borrower will repay the loan as determined by:

- the character, overall financial condition, resources and credit history of the borrower;

- the prospects of support from any financially responsible guarantors; and

- the nature and degree of protection provided by the cash flow and value of the underlying collateral.

It is in this last area -- the value of the collateral securing the loan -- that appraisals play an important role.

HISTORY OF OTS APPRAISAL REQUIREMENT

As you know, Mr. Chairman, well before the passage of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), the Federal Home Loan Bank Board (Bank Board), the OTS's predecessor, had appraisal guidelines in place. The Bank Board's Regulatory Memoranda R-41 through R-41c set forth technical criteria for conducting appraisals that became appraisal industry standards.

Nonetheless, during the 1980s, faulty and fraudulent appraisals -- appraisals that were not done in conformity with the Bank Board's guidance or were not done at all -- on large acquisition, development and construction projects and on large commercial properties contributed to the failure of many thrift institutions.

Congress' first legislative response to these problems in the thrift industry was contained in the Competitive Equality Banking Act of 1987 (CEBA). Among other things, CEBA required the Bank Board to move its appraisal requirements from informal guidance to formal regulations governing appraisals. In response to this mandate, the

Bank Board replaced its R-41 series with a new regulation and policy statement that contained the prior R-41 technical criteria as well as guidelines that emphasized the development and implementation of prudent appraisal policies and procedures by savings associations and their subsidiaries.

Two years later, in 1989, Title XI of FIRREA was enacted to further protect Federal financial and public policy interests in real estate-related transactions. FIRREA requires that real estate appraisals used in connection with Federally related transactions be written and performed in accordance with uniform standards by individuals whose competency has been demonstrated and whose professional conduct is subject to effective supervision. Title XI of FIRREA required all of the Federal financial institution regulatory agencies to promulgate new regulations establishing real estate appraisal standards.

The OTS' regulation integrated its guidance on real estate appraisals provided prior to FIRREA with the additional requirements of Title XI. The current OTS regulation requires that thrift institutions obtain accurate real estate appraisals for use in making credit decisions. The OTS appraisal rule requires that State-certified or licensed appraisers, as appropriate, be used for all real estate-related financial transactions except those that involve: (1) loans of $100,000 or less; (2) liens on real property taken as an abundance of caution; (3) certain lease transactions; (4) certain

maturing extensions of credit; and (5) certain sales of pools of real property interests. The rule also requires that all appraisals used in connection with Federally related transactions be performed in accordance with generally accepted appraisal practices as well as additional standards.

Credit Availability

On March 10, 1993, OTS and the other bank regulatory agencies issued the "Interagency Policy Statement on Credit Availability" in response to a Presidential initiative on credit availability. The agencies recognized that, in the last several years, the cumulative effect of certain regulations and practices has become overly burdensome. In some cases, burdensome rules may have stifled lending, particularly to small- and medium-sized businesses.

It is in the interest of lenders, borrowers, and the general public that creditworthy loans be made. Since economic growth, particularly job growth, is fueled primarily by small- and medium-sized businesses, credit availability to those borrowers is important. The agencies developed the March 1993 program to ensure that regulatory policies and practices do not needlessly obstruct the free flow of credit. That program included reducing the burden of the appraisal rules and improving the climate for real estate-based lending.

As we stated in the March 1993 release, the real estate appraisals that we now require may not always add to the safety and soundness of the credit decision or may prove so expensive as to make a sound small- or medium-sized business loan uneconomical. The agencies stated that we would pursue changes to the appraisal regulation to remove unnecessary impediments to lending.

The changes that we indicated we would pursue included:

- o altering the appraisal rules so as not to require appraisals by a licensed or certified appraiser for business loans where real estate is offered as additional collateral but is not relied upon as the primary source of repayment for the loan; and

- o re-examining the existing thresholds -- the dollar amounts below which formal appraisals are not needed -- for reasonableness.

PROPOSED REGULATION

Thus, on June 4, 1993, the agencies published a joint notice of proposed rulemaking that contained amendments to the appraisal regulation that would streamline the current rule and provide more flexibility to facilitate credit availability.

The proposed amendments would:

- increase to $250,000 the threshold level at or below which an appraisal by a licensed or certified appraiser would be required;

- expand and clarify existing exemptions to the Title XI appraisal requirements such as exemptions for transactions where a lien on real estate is taken as an abundance of caution; for transactions involving renewals and refinancing; and for loan purchases;

- create additional exemptions, such as exemptions for business loans of $1 million or less where the primary source of repayment is not real estate and exemptions for transactions that are insured or guaranteed by a United States government agency or government-sponsored enterprise; and

- amend existing requirements governing appraisal content and appraiser independence.

Proposed Rule's Benefits to Small- to Medium-Sized Businesses

Of the changes we proposed, we believe that three will most likely assist small- to medium-sized businesses. These changes are: the

proposed expansion of the abundance-of-caution exemption; the proposed business loan exemption; and the proposed increase to $250,000 of the de minimis threshold.

First, the proposal would allow savings associations to apply the abundance-of-caution exemption to a broader range of transactions in which real estate is taken as additional collateral for a loan that is well supported by income or other collateral of the borrower. Under our current rule, this exemption is available only for transactions in which the terms of the loan would not be more favorable if the lien on the collateral real estate were taken.

Second, the proposed business loan exemption would allow a savings association to take real estate as security in connection with a loan of $1 million or less to a small- to medium-sized business without getting an appraisal when the primary source of repayment for the loan does not depend on the sale of, or rental income from, real estate. We expect that this exemption would benefit small- to medium-sized business borrowers primarily by reducing the cost and time to obtain real estate-secured business loans.

Finally, the proposed increase to $250,000 as the threshold at or below which a Title XI appraisal is not required could also reduce the cost and time for the majority of small- to medium-sized businesses to obtain business loans since the largest number of real estate-secured business loans are less than $250,000.

Safety and Soundness Concerns

The OTS has received approximately 3,700 comment letters in response to our proposed regulation and to the supplemental information that we placed in the rulemaking record. The majority -- over 90 percent -- of the comments were from appraisers who expressed concern that increasing the de minimis threshold would adversely affect safety and soundness and would eliminate the consumer protection afforded by appraisals. Most banks that commented on the proposal supported the proposed rules. The 36 thrifts that commented were divided, with many opposing the change in the de minimis threshold because they believed that it would not significantly benefit their operations and could potentially increase the riskiness of thrifts that are not well run.

The agencies have not yet prepared a final rule and it is, therefore, premature for me to attempt to describe what it will contain. One of our objectives in the proposed amendments, however, was to facilitate credit availability without adversely affecting safety and soundness. One way that we proposed to meet this objective was by only allowing well-run thrifts -- those not in a troubled condition -- to avail themselves of the proposed new de minimis threshold. Under the proposal, those thrift institutions that are considered problem institutions and that are in troubled condition would continue to be required to use the current threshold.

Our data indicate that most of the loans that would be exempted by the change in the threshold would be single-family mortgages. Data reported on the Thrift Financial Report for the quarter ending September 30, 1993, indicate that 87 percent of the real estate loans held by thrifts are secured by single-family homes. Data from the National Association of Realtors, the United States Census Bureau and the Department of Housing and Urban Development (HUD) indicate that 82 percent of loans on existing homes and 85 percent of loans on new homes are below $250,000.

We note that should the final rule be promulgated as proposed, most of the single-family mortgage loans, which constitute the majority of thrift lending, would continue to be supported by the equivalent of Title XI appraisals because of the requirements of the secondary mortgage market. The major secondary mortgage market entities such as Fannie Mae and Freddie Mac, which purchase single-family mortgages, require the equivalent of Title XI appraisals. According to 1992 data provided by HUD, 63 percent of single-family mortgages were purchased by secondary mortgage market entities.

Because the majority of exempt loans will be single-family residential mortgages, and because of the historically low loss rate of such loans, we believe that increasing the threshold presents very little additional risk. For example, for the year ending December 31, 1992, the loan loss rate for single-family mortgages -- most of which were originated prior to our present appraisal requirements -- was

0.22 percent. That is, for every $100 invested in single-family mortgages, thrifts, on average, lost only 22 cents. In contrast, the loan loss rate on commercial real estate loans for the same period was 2.33 percent, over ten times higher.

Finally, most loans that would be exempt by provisions in the proposed regulation would still be required to be supported by sound evaluations of the real estate collateral. As with an appraisal, an evaluation is used to validate real estate values. These evaluations must comport with Thrift Bulletin 55, "Appraisal and Evaluation Guidelines", issued by the OTS in October 1992.

Like an appraisal, an evaluation is a written estimate of value, prepared by an individual who can render an unbiased estimate of value and who has real estate-related training or experience relevant to the type of property being reviewed. Unlike an appraisal, however, this individual need not be licensed or certified by a state agency, and the evaluation document need not comply with all of the detailed requirements that an appraisal must adhere to.

Consumer Protection

For the same reasons that we do not believe that our proposed changes to the appraisal rule will adversely affect safety and soundness, we do not believe assertions that the proposed changes would adversely affect consumer protection provided by appraisals. As mentioned earlier, the majority of single-family home loans are

originated for sale in the secondary mortgage market and these home loans will still have the equivalent of Title XI appraisals. In addition, consumers may obtain an appraisal of the property they are contracting to purchase, regardless of whether the institution that is financing the purchase decides to obtain one.

Further, for those loans that fall below the de minimis threshold and that will not be sold on the secondary mortgage market, thrifts must still obtain a sound evaluation of the real estate collateral. An evaluation can provide the same protection to the consumer as an appraisal. Because of our requirement that those who perform evaluations must be capable of rendering an unbiased estimate of value, we believe that the evaluation would help to ensure that the consumer is being treated fairly and that lenders reach sustainable, objective lending decisions. In addition, an evaluation is likely to be based on the same information an appraisal is based on, recent comparable sales.

CONCLUSION

OTS will continue to maintain our emphasis on the important role that management has in overseeing the quality and independence of appraisals and evaluations prepared for thrifts. The proposed changes to the appraisal regulation would not preclude thrift institutions from contracting with licensed or certified appraisers to perform evaluations or from obtaining an appraisal for an exempt transaction when the institution believes it is prudent.

Thank you, Mr. Chairman. I appreciate this opportunity to testify before the Subcommittee. We are mindful of our responsibility to maintain the safety and soundness of thrift institutions while facilitating credit availability. We believe that the agencies' proposed changes to the appraisal regulations would maintain this balance.

TESTIMONY

OF

THOMAS J. INSERRA
RTC CHIEF APPRAISER

BEFORE THE

SUBCOMMITTEE ON GENERAL OVERSIGHT,
INVESTIGATIONS AND THE RESOLUTION OF
FAILED FINANCIAL INSTITUTIONS
OF THE
COMMITTEE ON BANKING FINANCE AND URBAN AFFAIRS

10:00 A.M.

MARCH 1, 1994

2222 RAYBURN HOUSE OFFICE BUILDING

Good Morning Mr. Chairman and Members of the Subcommittee. I appreciate the opportunity to testify on behalf of the Resolution Trust Corporation.

Let me begin by stating that the RTC does not have any position regarding the regulation being discussed today. Nor does the Corporation have a position on the general issue of raising the de minimis level at or below which a licensed or certified appraisal is not required on real estate residential and commercial transactions. The subcommittee has asked us to comment on our own experience at the RTC and I am pleased to do so.

At the outset, let me state that the RTC is a unique federal entity, quite separate and distinct from federal regulators of financial institutions. The RTC takes over bankrupt savings and loans which hold problem assets. In order to properly manage and dispose of the problematic assets that the RTC inherits, the Corporation has set up fairly rigid procedures. RTC procedures may or may not be appropriate for regulatory agencies of viable financial institutions.

RTC's appraisal policy

RTC's appraisal policies have been in place for about 18 months. At this point in time, we do not foresee making any changes to these policies. Let me generally describe our policies.

Asset Value	RTC Policy
$10,000 to $100,000	An appraisal is recommended
$100,000 to $2.5 million	One appraisal is required and must pass an initial compliance checklist;
$2.5 million and above	Either two appraisals or one appraisal that has been reviewed by a second appraiser is required.

The RTC generally requires new appraisals every 24 months for REO property and every 12 months for non-performing loans.

The RTC does not seek a change in its existing appraisal threshold level for a variety of reasons. The most notable reasons include:

A) On April 8, 1993, the Honorable Lloyd Bentsen and Interim CEO Roger C. Altman adopted a written nine-point plan which called for various management reforms and an improvement in RTC's internal controls. The RTC believes that appraisal reports independently prepared by properly licensed appraisers serve as an effective internal control.

B) In addition to serving as an important internal control, the RTC believes that it has received other benefits from appraisal reports prepared by licensed and certified appraisers:

1) Assists the RTC in establishing appropriate list prices;
2) By providing copies of appraisals to prospective purchasers, marketing times and due-diligence periods are shortened, thus reducing RTC holding costs;
3) Licensing provides an important enforcement mechanism for the RTC to make criminal referrals of appraisers;
4) Helps the RTC ensure that it maximizes sales revenues.

C) The RTC has awarded more than 100,000 appraisal contracts and paid total appraisal-related fees of approximately $170 million since 1989. In 1989 and 1990 the RTC did experience significant appraisal delays and a notable increase in appraisal fees. However, at the present time, the RTC is simply not experiencing either of these problems. In fact, an informal survey of RTC's staff appraisers indicates that appraisal fees for residential property have remained relatively flat while fees for commercial real estate have notably declined over the past 12 to 18 months.

Potential impact of the de minimis proposal

The RTC has not commissioned or prepared any formal study on the potential impact to the RTC of the de minimis proposal, such as the study currently being conducted by the GAO. However, the RTC would like to share its experience with appraisal issues.

Securitization issues

The RTC has been able to raise total funds of nearly $36 billion from the sale of securitized loans since 1991. Of that, $13.5 billion in commercial/multi-family loans were sold and $22.8 billion in residentially related loans (single family, home equity and mobile home loans) were sold.

From these sales, the RTC has learned that the lack of an appraisal might impact our ability to market the loan on the secondary market, or might impact the RTC's ability to minimize loan losses. Typically, the lack of an appraisal might preclude the sale of that loan, result in the need to discount the price of that loan, or necessitate an increase in the amount of money RTC places in reserve.

Average Loan Size

As of December 31, 1993, RTC's inventory consisted of $8.9 billion in performing and non-performing single-family mortgage loans with an average loan size of $25,590. This is much lower than the 1993 estimated S&L industry-wide average loan size of $78,000[1] for newly originated residential mortgages. RTC's performing and non-performing commercial real estate mortgages total $17.7 billion and have an average loan size of $532,363.

Evaluations in lieu of appraisals

The proposal to increase the appraisal de minimis to $250,000 also would allow for "evaluations" in lieu of appraisals. As stated earlier, RTC's current policies do not allow for evaluations. At this time, the RTC has no plans to utilize evaluations in lieu of appraisals.

Conclusion

Let me conclude by reiterating that the RTC is a unique federal entity. Its appraisal policies have been effective for the management and disposition of problem assets from troubled

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[1]Based on a published survey of the Savings & Community Bankers of America, Washington DC and on verbal comments by Mr. Joseph Blalock. The survey, which was conducted in 1993 and publicly released on February 2, 1994, included responses from 201 Savings & Loans with total originations of $19.3 billion.

thrifts. RTC procedures may or may not be appropriate for regulatory agencies of viable financial institutions. I would be pleased to respond to questions from the Subcommittee.

STATEMENT OF

DIANA L. GARMUS, ACTING CHAIRPERSON

APPRAISAL SUBCOMMITTEE

OF THE

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

BEFORE THE

SUBCOMMITTEE ON GENERAL OVERSIGHT,

INVESTIGATIONS, AND THE RESOLUTION OF

FAILED FINANCIAL INSTITUTIONS

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

U. S. HOUSE OF REPRESENTATIVES

MARCH 1, 1994

Mr. Chairman, I am pleased to appear before you today in my capacity as Acting Chairperson of the Appraisal Subcommittee of the Federal Financial Institutions Examination Council ("ASC") as you examine the impact of raising from $100,000 to $250,000 the threshold level at or below which appraisals performed by State licensed or State certified appraisers are not required for real estate related transactions. The ASC is comprised of six members; each is a career employee designated respectively by the heads of the Office of the Comptroller of the Currency ("OCC"), the Board of Governors of the Federal Reserve System ("Federal Reserve"), the Federal Deposit Insurance Corporation ("FDIC"), the Office of Thrift Supervision ("OTS"), the National Credit Union Administration ("NCUA") and the Department of Housing and Urban Development ("HUD"). As you know, the Housing and Community Development Act of 1992 amended Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA") and provided the OCC, Federal Reserve, FDIC, OTS and NCUA ("Agencies") with the authority to establish an appraisal threshold. Because the statutory authority rests with these Agencies and not with the ASC, it is more appropriate for them to provide testimony on the proposed amendments to their appraisal regulations. I will focus my testimony on the implementation of Title XI, which is proceeding successfully forward, notwithstanding the debate on the threshold level.

In 1993, significant progress was made in implementing a national program of appraisal regulation envisioned by Title XI; 1993 was the first year that Title XI was fully in place and related Federal and State regulatory programs were in full operation. Actions taken by the ASC, the States and their appraiser regulatory agencies ("State agencies"), the Appraisal Foundation ("Foundation") and its Appraiser Qualifications Board ("AQB") and Appraisal Standards Board ("ASB"), and the Agencies

all have contributed to this progress.

The ASC's role in implementing a national program of appraisal regulation under Title XI is divided into four diverse responsibilities. One of the four responsibilities is to maintain a National Registry of State Certified and Licensed Appraisers ("Registry"). In 1993, the ASC received Registry submissions from all 50 States, plus the District of Columbia, Guam, the Commonwealth of the Northern Mariana Islands ("CNMI"), the Virgin Islands and Puerto Rico. By the end of 1993, more than 80,000 real estate appraisers were either licensed or certified by the States and carried on the Registry. A listing of the number of appraisers in the Registry by State and by classification is attached as Appendix 1.

Another of the ASC's major responsibilities is to monitor the policies, practices and procedures established by the States regarding the certification and licensing of appraisers and to determine whether those policies, practices and procedures are consistent with Title XI. To help ensure that State agencies perform their duties in a consistent manner, the ASC published its *Policy Statements Regarding State Certification and Licensing of Real Estate Appraisers* in August. This document combined and updated the prior Revised Guidelines and other ASC communications with the States. The Policy Statements also were designed to contribute to greater consistency in the implementation and interpretation of Title XI.

In addition, ASC staff visited 18 States during 1993 in a continuation of its program of performing field reviews of State appraiser regulatory programs. This brought the total number of

States visited to 39 since implementation of Title XI. All of the States have rules in place requiring applicants to meet at least the AQB-established minimum standards for certified appraisers and to pass an AQB endorsed examination. In general, the ASC has continued to find States to be in compliance with the intent of Title XI. The activities of the State agencies have, for the most part, appeared fair, thoughtful and dedicated to Title XI's successful implementation. While there has been speculation on the effect of the Agencies' regulations on the number of certified or licensed appraisers and State regulatory programs, the ASC, at this time, has no empirical evidence that the amendments proposed by the Agencies will have any significant impact on the number of licensed or certified appraisers or the performance of the State agencies.

Through its review and monitoring process, the ASC has determined that a serious nationwide shortage of real estate appraisers has not occurred, though localized shortages — particularly in non-urban areas — may exist, although none have been brought to the ASC's attention. The ASC, however, may readily address any identified shortages through its temporary waiver process pursuant to Title XI. The ASC has received only one temporary waiver request, which was from CNMI. On December 30, 1992, and with the FFIEC's concurrence, the ASC granted the request and ordered relief on an interim basis. On February 17, 1993, the ASC approved a final order granting CNMI temporary waiver relief until February 28, 1994. CNMI proceeded to provide for the education and examinations required for its full compliance with Title XI. CNMI has not requested an extension of the temporary waiver relief and further relief no longer will be needed.

In 1993, the ASC also performed its statutory responsibilities to monitor and review the practices,

procedures, activities and organization of the Foundation and to fund appropriate portions of the Foundation's expenses that relate to the activities of the ASB, the AQB and the membership activities of its Board of Trustees. Of particular interest to the ASC, and perhaps to the Subcommittee, is the ASB's continuing work to clarify and perfect the Uniform Standards of Professional Appraisal Practice ("USPAP"). The ASB has worked to clarify the use of the departure provision and the acceptability and content of limited appraisal reports. We understand that the ASB intends to make it clear that licensed and certified appraisers may perform a wide range of appraisal assignments in full compliance with USPAP, including the kinds of evaluations required by the Agencies for real estate related financial transactions that are exempt from the Agencies' appraisal regulations. The ASB intends to issue its *Statement on the Use of Departure and Limited Appraisal Reports* in time for inclusion in the July 1994, mid-year supplement to USPAP.

As part of its fourth and last responsibility, which is to monitor the appraisal standards for federally related transactions established by the Agencies, the ASC continued to work closely with the Agencies and to comment on their 1993 regulatory proposals. As you know, four of the Agencies (the OCC, OTS, FDIC and the Federal Reserve) have proposed to amend their appraisal regulations to, among other things, increase the uniform threshold level above which a Title XI appraisal is required from $100,000 to $250,000. The Agencies also proposed to clarify the phrase, "real estate collateral taken in an abundance of caution," and to establish a $1,000,000 regulatory exemption for business loans that do not rely upon the real property as a means of repayment. The proposal also would eliminate the Agencies' added appraisal requirements over USPAP and would permit some use of USPAP's Departure Provision. In general, the Agencies would expect that appraisals in Federally

related transactions will be performed in accordance with USPAP. The ASC submitted written comments to the four Agencies on the proposed amendments in June. A copy of that letter is attached as Appendix 2. The Agencies have not yet taken final action on the proposals.

To facilitate communications and to bring all of the entities it monitors together, the ASC sponsored its third Conference for State Appraiser Regulators in November. Representatives from 44 States attended. While temporary practice and reciprocity are still issues in the States, the primary interest of many States has shifted to the issue of enforcement. All of the States have incorporated USPAP into their State statutes or regulations, and many States have established and have begun to initiate disciplinary proceedings against appraisers who appear to violate USPAP. Some State agencies already have revoked or suspended licenses or certifications of appraisers who have violated USPAP. To date, more than twenty appraiser names have been removed from the Registry by the ASC upon the request of the State agencies.

The ASC also exchanged letters with the Agencies and the State agencies regarding the coordination of appraiser and appraisal compliance programs. By their agreeing to share communications concerning referrals of actions of State certified or licensed appraisers that are contrary to Title XI, the ASC hopes to strengthen the coordination and cooperation among the Agencies, the State agencies and the ASC.

During 1994, the ASC will continue its monitoring responsibilities under Title XI by closely reviewing the Agencies' appraisal regulations, the activities of the Foundation and the ASB and AQB

and the certification and licensing programs of the States. The ASC will continue its pivotal role in ensuring that real estate appraisals used in federally related transactions are performed in accordance with uniform standards by appraisers certified or licensed by the States.

Appendix 1

Appraisers licensed and certified in the States as of December 31, 1993

State	Transitional	Licensed	Certified Residential	Certified General	Total
Alaska		6	146	148	300
Alabama		470	26	371	867
Arizona	152	101	445	618	1,316
Arkansas	202	91	235	310	838
California	4,315	3,066	5,240	4,338	16,959
Colorado		791	480	1,550	2,821
Connecticut		32	547	605	1,184
Delcware		28	107	105	240
District of Columbia			207	214	421
Florida		65	2,105	1,710	3,880
Georgia		703	759	1,423	2,885
Hawaii	75	27	110	130	342
Idaho		182	69	160	411
Illinois		2,733	399	691	3,823
Indiana	617	312	405	333	1,667
Iowa		122	272	462	856
Kansas	23	226	273	424	946
Kentucky	26	30	226	199	481
Louisiana			356	259	615
Maine	237	226	115	169	747
Maryland	516	327	527	517	1,887
Massachusetts	934	305	596	720	2,555
Michigan		1,602	2	897	2,501
Minnesota		663	681	767	2,111
Mississippi		425	292	356	1,073
Missouri		93	615	473	1,181
Montana		8	104	131	243
Nebraska	25	176		297	498
Nevada		71	169	342	582
New Hampshire		102	216	314	632
New Jersey		1,061	223	900	2,184
New Mexico			152	156	308
New York	49	501	1,623	1,136	3,309
North Carolina		80	944	588	1,612
North Dakota		52		85	137

Ohio			1,516	744	2,260
Oklahoma		345	253	364	962
Oregon	80	468		336	884
Pennsylvania		297	1,146	753	2,196
Rhode Island	10	32	93	100	235
South Carolina	530	527	165	457	1,679
South Dakota	102	129		198	429
Tennessee	67	232	645	644	1,588
Texas		196	1,399	2,304	3,899
Utah			246	267	513
Vermont	104	57	103	107	371
Virginia		741	373	704	1,818
Washington		423	657	611	1,691
West Virginia	260	86	160	161	667
Wisconsin	558	224	664	465	1,911
Wyoming			70	136	206
Guam			7	9	16
Puerto Rico				90	90
Subtotal	8,882	18,434			
Total		27,316	26,163	30,348	83,827

Appraisal Subcommittee

Federal Financial Institutions Examination Council

Appendix 2

July 16, 1993

Hoyle L. Robinson
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Dear Mr. Robinson:

The Appraisal Subcommittee of the Federal Financial Institutions Examination Council ("ASC") is pleased to respond to the Federal financial institutions regulatory agencies' ("Agencies") request for comments on their proposed rulemaking concerning real estate appraisals. 58 FR 31878 (June 4, 1993). Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("Title XI") set the requirement for the appraisal regulations and established the ASC. In carrying out its statutorily required functions of monitoring the State appraiser regulatory agencies ("State agencies"), the Federal financial institutions regulatory agencies and the Appraisal Foundation, the ASC has obtained information concerning the implementation of Title XI which it believes may be of value to the Agencies, and which we offer for your consideration in this rulemaking.

The ASC believes that the changes which have occurred to date in the appraisal profession and in the relations among lenders, appraisers and regulators are positive. All of the States have State agencies in place, and all have submitted the names of appraisers licensed and certified in the State to the ASC for inclusion in the national registry of State certified and licensed appraisers ("registry"). At this time, we have more than 72,000 names in the registry.

Since 1992, as required by Title XI, the ASC has been monitoring the State's requirements, practices and procedures for the certification, licensing and supervision of appraisers who may perform appraisals in connection with federally related transactions. To date, the ASC has performed field reviews of 30 State agencies and has found that, in general, State appraisal regulatory programs appear to be operating in a manner consistent with Title XI. In fact, State agencies, as required by Title XI, are actively taking enforcement measures against appraisers whose performance is found to violate the generally accepted standards of the profession, *i.e.*, the Uniform Standards of Professional Appraisal Practice ("USPAP").

2100 Pennsylvania Avenue NW • Suite 200 • Washington DC 20037 • (202) 634-6520 • Fax (202) 634-6555

We also are pleased to have been advised that the feared significant shortages of certified and licensed appraisers have not materialized. Indeed, the ASC has no evidence that there is a scarcity of certified or licensed appraisers to perform appraisals in federally related transactions in a State or in any geographical political subdivision of a State, leading to significant delays in the performance of such appraisals. In March 1992, the ASC adopted final "Rules of Practice for Temporary Waiver Proceedings." The ASC received only one request for such a waiver, from the Commonwealth of the Northern Mariana Islands. This request was granted at year-end 1992, and the Commonwealth now has several qualified appraisers. To the best of our knowledge, no States are currently considering waiver relief.

The Appraiser Qualifications Board ("AQB") and the Appraisal Standards Board ("ASB") of the Appraisal Foundation have been effectively carrying out their responsibilities under Title XI. The AQB continues to evaluate both the qualifications criteria for certified appraisers, with which the States must comply, and the uniform examination criteria on which State appraiser certification examinations are based. The ASB has published and has updated USPAP, which is recognized as the standard of the appraisal profession. The ASB continues to issue Statements and Advisory Opinions expanding and clarifying the standards. Because greater reliance on USPAP and the elimination of the prohibition of the use of USPAP's Departure Provision are two of the changes proposed in this rulemaking, the Agencies should be aware that the ASB is in the process of developing guidance for licensed and certified appraisers who perform assignments which are less than "full Title XI" appraisals. This may result in changes in the interpretation of the Departure Provision and of other portions of USPAP. This process should be of particular interest to the Agencies and their regulated lenders.

With respect to the optional references to USPAP in the proposed regulations, the ASC recommends that the Agencies adopt ALTERNATIVE III. We believe that ALTERNATIVE I may be interpreted to freeze USPAP as of the date that the final regulation is published, and ALTERNATIVE II does that explicitly. The ASC has advised the State agencies to consider Statements and Advisory Opinions, as well as amendments to USPAP, in any enforcement actions they take, and we believe that the incorporation of ALTERNATIVE III into the Agencies' regulations is consistent with that policy.

The ASC notes that the proposal, while establishing transactions for which the services of a State certified or licensed appraiser are not required by regulation, states that transactions: (1) below the threshold, (2) involving business loans, and (3) resulting from an existing extension of credit, should have an appropriate evaluation of real property collateral that is consistent with Agency guidance. The ASC recommends that the Agencies clearly state that nothing in these regulations prohibits, or should be perceived to prohibit, State certified and licensed appraisers from performing assignments for regulated lenders for which they are specially trained and qualified. Moreover, the ASC recommends that the

Agencies include in their final rules a statement that regulated lenders should use a qualified person for each assignment, and, in making that determination, lenders should be urged to consider the advantages of employing professionally qualified persons who are subject to effective State regulation and supervision.

The ASC appreciates the opportunity to comment on this proposed rule and would be pleased to provide any additional information or respond to any questions.

Sincerely,

Fred D. Finke
Chairman

Statement of the

APPRAISAL INSTITUTE

Before the House Committee on Banking, Finance, and Urban Affairs

SUBCOMMITTEE ON GENERAL OVERSIGHT, INVESTIGATIONS, AND THE RESOLUTION OF FAILED FINANCIAL INSTITUTIONS

Washington, DC
March 1, 1994

APPRAISAL INSTITUTE

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March 1, 1994

Mr. Chairman, and Members of the Subcommittee, my name is Douglas C. Brown, MAI. I am the 1994 President of the Appraisal Institute and a practicing real estate appraiser in Columbia, South Carolina. With a heritage extending over 60 years, the Appraisal Institute is the world's leading professional organization of real estate appraisers. Identified by their experience and knowledge of real estate valuation, our members adhere to a strictly enforced Code of Professional Ethics and Standards of Professional Appraisal Practice.

Mr. Chairman, the Appraisal Institute applauds your initiative in conducting today's hearing. This hearing brings before your Subcommittee a very important public policy matter concerning the 1989 appraisal reform amendments passed by Congress in Title XI of the Federal Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA). Title XI established a Federal/State system for regulating the appraisal industry that was designed to provide a reasonable safeguard against the appraisal abuses and resulting bank and thrift failures that Congress had found to exist prior to passage of this legislation. The Title XI appraisal requirements established accountability, reliability, and uniformity in the appraisal profession by requiring appraisers to obtain an entry level state license or certification and perform appraisals in accordance with industry standards.

These requirements have been in place in all 50 states for over a year and in many states since 1990. Since implementation of Title XI, banks, credit unions and the secondary market have experienced record profits and record mortgage origination activity. The secondary market requires the use of a licensed or certified appraiser for each transaction in which they participate. Having had an opportunity to view the effects first hand, Fannie Mae, Freddie Mac, the Savings and Community Bankers of America (SCBA), Consumer Federation of America (CFA), Mortgage Insurance Companies of America (MICA), National Association of Realtors (NAR), Consumers Union (CU), Association of Community Organizations for Reform Now (ACORN), agriculture interests, members of Congress, editorial boards, as well as individual regulators and lenders have publicly supported the existing appraisal requirements.

At issue is the June 4, 1993 proposal by the Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), Board of Governors of

the Federal Reserve System (FRS), and Office of Thrift Supervision (OTS) (agencies) to increase the appraisal threshold from $100,000 to $250,000, at or below which a licensed and certified appraiser would not be required.

The $250,000 threshold proposal is controversial because it would eliminate a substantial amount of transactions from the Title XI appraisal requirements. Based on data acquired from the Census Bureau, Department of Housing and Urban Development (HUD) and NAR, a $250,000 threshold would exclude approximately 94 percent of the total number of 1-4 family residential loans from the appraisal regulation. Using similar data, it can be derived that the dollar volume of loans not requiring a Title XI appraisal would be approximately 82 percent for loans secured by existing 1-4 family real estate and 85 percent for loans secured by newly constructed 1-4 family real estate. In terms of loans to small businesses, the FRS Division of Research and Statistics concluded that the average small business loan by loan size in 1992 dollars was $155, 237.

This jeopardizes the safety and soundness of financial institutions and eliminates an important consumer protection, particularly for those individuals who may be subject to lending discrimination. Congress granted the agencies the authority to set a higher threshold only if the agencies could DETERMINE IN WRITING THAT SUCH THRESHOLD LEVEL DOES NOT REPRESENT A THREAT TO THE SAFETY AND SOUNDNESS OF FINANCIAL INSTITUTIONS. 12 U.S.C. 3341(b). Based on existing data, it is evident that the $250,000 proposal does not pass Congressional muster.

A $250,000 THRESHOLD WILL NOT PROVIDE REGULATORY RELIEF. INSTEAD IT WILL LEAD TO MORE REGULATORY CONFUSION.

Before I address the data concerning the $250,000 threshold, I would like to clear up a serious misconception - the idea that a higher threshold would provide regulatory relief. A $250,000 threshold will not provide regulatory relief and is not the panacea for any problems which financial institutions are experiencing.

First of all, as we will outline later in our testimony, appraisal costs and appraisal delays have not risen since implementation of Title XI. Instead, evidence shows that appraisal costs, which are only a small fraction of the total underwriting costs associated with the lending process, have actually declined due to increased competition among professional appraisers. Further, there is not a shortage of appraisers. Today over 80,000 appraisers are licensed and certified.

Second, a $250,000 threshold would establish valuation requirements on the federal level that are inconsistent with the secondary market and state valuation

requirements. The secondary markets, Fannie Mae and Freddie Mac, require the use of licensed or certified appraisers for those transactions in which they participate. Most of these transactions fall below a $250,000 threshold. In addition, many states have addressed safety and soundness and consumer protection concerns by requiring the use of a licensed or certified appraiser for valuations which fall below a $250,000 threshold. If a higher threshold were instituted, regulatory confusion, not regulatory relief, would occur as financial institutions throughout the country attempted to determine which valuation requirements to adhere to.

Third, contrary to what some might assume, the $250,000 threshold proposal would result in confusing agency valuation requirements. The agencies have maintained that transactions below the threshold should have an appropriate evaluation of real property collateral consistent with agency guidance. The agencies have described an evaluation in their guidelines in the following manner:

> "File documentation should support the estimate of value and include sufficient information for an individual to fully understand the evaluator's analysis....the scope of an evaluation should correlate to the complexity of the transaction and type of real estate collateral....complexity, expertise, independence and ability to render a high quality written report are the appropriate selection criteria for appraisers and evaluators."

Evaluations by definition appear to require the same analysis as that which is required in a limited appraisal assignment. Because evaluations are not subject to appraisal industry standards, there is no consensus on what information is necessary to satisfy these evaluation guidelines or who has the requisite competency and expertise to perform an evaluation. This confusion creates unnecessary delay in the process and adds unnecessary risk. In addition, evaluations would not be allowed in many states or not be accepted by the secondary market. A higher threshold would merely exacerbate the confusion by allowing for more ill defined evaluations and fewer well defined appraisals.

THE DEPARTURE PROVISION, PROPERLY IMPLEMENTED, WOULD PROVIDE TRUE REGULATORY RELIEF WHILE ADDRESSING SAFETY AND SOUNDNESS AND CONSUMER PROTECTION CONCERNS

The Appraisal Institute believes a solution exists which would provide true regulatory relief and provide benefits to lenders, appraisers, consumers, regulators, and taxpayers. In fact, Mr. Chairman, the debate and confusion surrounding the threshold could be solved instantaneously if the agencies took one simple step:

eliminate the threshold concept and allow appraisers to perform appraisals in accordance with the Departure Provision of the Uniform Standards of Professional Appraisal Practice (USPAP).

The Departure Provision recognizes that uniform appraisal standards are essential in each valuation, yet all the reporting requirements of USPAP may not be necessary for each transaction. The rules governing the acceptable use of the Departure Provision are currently being formulated by the Appraisal Standards Board (ASB) of The Appraisal Foundation. Input on these rules has been offered by lenders, appraisers, and regulators.

Since the Departure Provision is part of USPAP, it would be adhered to by all 50 states, the secondary market, and the federal government. The following are benefits which would be realized by a proper implementation of the Departure Provision:

* Financial institutions would reduce their direct costs while receiving the specific information they need to do sound business in the marketplace.

* Appraisers would be able to provide their services in a more efficient and cost effective manner.

* Consistent state and federal valuation requirements would result thereby reducing delay and confusion.

* Safety and soundness and consumer protection concerns would be met.

* The best qualified individuals, professional appraisers, would be able to provide the services that meet the needs of their clients and serve the interests of the public. All parties would benefit.

The Appraisal Institute has long supported proper implementation of the Departure Provision of USPAP. In meetings with the agencies and interested parties such as the American Bankers Association (ABA), we have reached a consensus regarding the need for utilization of this provision.

It should be noted that the Departure Provision was one of the elements of the Appraisal Institute's comprehensive regulatory relief agenda which we presented last year to Congress and the agencies. Our regulatory relief agenda, designed to ease the availability of credit while maintaining sound underwriting standards,

included clarification of the agencies abundance of caution exemption and elimination of duplicative appraisal standards in the current regulations. Mr. Chairman, I have placed into the record material pertaining to the Appraisal Institute's regulatory relief plan. Representative of this material is a joint letter submitted by the Appraisal Institute and the Savings and Community Bankers of America to the agencies outlining common regulatory goals for our nation's financial institutions.

A $250,000 APPRAISAL THRESHOLD DOES NOT COMPLY WITH REQUIREMENTS SET FORTH BY CONGRESS.

While the Appraisal Institute would much rather discuss solutions to current issues, we cannot overlook the problems associated with the $250,000 proposal. As discussed earlier, Congress has set specific requirements with regard to an increase in the appraisal threshold. In December 1992, Congress provided that "each Federal financial institutions regulatory agency and the Resolution Trust Corporation may establish a threshold level at or below which a certified or licensed appraiser is not required to perform appraisals in connection with federally related transactions IF SUCH AGENCY DETERMINES IN WRITING THAT SUCH THRESHOLD LEVEL [IN THIS CASE $250,000] DOES NOT REPRESENT A THREAT TO THE SAFETY AND SOUNDNESS OF FINANCIAL INSTITUTIONS. 12 U.S.C. 3341(b).

Congress recognized that it could not foresee the impact of the agencies exercise of threshold authority, and it therefore mandated that after 18 months and 36 months, the Comptroller General of the United States must conduct a study on the "adequacy and quality of appraisals...below the threshold" set pursuant to Sec. 3341(b), taking into account-

(A) the cost to any financial institution involved in any transaction;
(B) the possibility of losses to the Bank Insurance Fund, the Savings Association Insurance Fund, or the National Credit Union Share Insurance Fund;
(C) the cost to any customer involved in any such transaction; and
(D) the effect on low-income housing.

Upon completion of these studies, the Comptroller General must submit its findings to each Federal financial institutions regulatory agency, as well as the House and Senate Banking Committees. Included with these findings shall be "recommendations for legislative or administrative action as the Comptroller General determines to be appropriate."

The agencies issued their $250,000 threshold proposal before the GAO reports were completed even though it is apparent that Congress (1) believed Congress and the agencies should consider the mandated GAO studies before implementing further legislative or regulatory initiatives with respect to appraisal threshold; and (2) believed strongly that cost and consumer issues were extremely important factors to be considered in evaluating the propriety of such thresholds. We believe the agencies should review these studies before threatening to substantially dilute the Title XI appraisal requirements.

Can the agencies raise the threshold to $250,000 and comply with the law by determining "in writing that such threshold does not represent a threat to the safety and soundness of financial institutions?" Does the agencies threshold proposal conform to sound public policy, most notably as it relates to consumer concerns? The following are the facts. Congress should make the call.

I. SURVEYS AND COMMENTS FROM REGULATORY PERSONNEL EXPOSE THE FACT THAT A $250,000 THRESHOLD REPRESENTS A THREAT TO THE SAFETY AND SOUNDNESS OF FINANCIAL INSTITUTIONS.

1993 FDIC Survey of Senior Supervisory Staff Cited The Safety and Soundness Threat Associated With A $250,000 Threshold

The Report of the FDIC's Boston Region pointed out that within the past five years, most of the banks in the six New England states which comprise the Boston Region experienced significant loan losses, and such losses culminated in the failure of ninety banks and twenty federally chartered thrifts during that period. Stated the Boston Region Report:

> "While it would be unfair to cite inadequate appraisal practices as the sole reason for such problems in any of these institutions, general appraisal-related deficiencies could certainly be considered a contributing factor in virtually all of them. The spectrum of appraisal related deficiencies encountered was considerable, ranging from the total lack of appraisals to the reliance upon seemingly appropriate appraisal reports that later proved inflated. The loans that led to these problems typically were originated prior to the implementation of FDIC appraisal regulations in 1990. Without consistent control, quality of appraisals varied widely. They included inconclusive "valuations" completed by bank insiders; insufficiently documented "letters of opinion" by appraisers; and valuations based upon flawed

> methodology....During the growth years of the mid 1980s when local real estate values were rising, an attitude prevailed that an appraisal was simply a technical requirement, and the lending decision was oftentimes determined before an appraisal was completed."

These problems occurred at all dollar ranges. In fact, the Boston Region Report noted "several instances where losses were incurred on sizable borrowing lines comprised of numerous investment real estate loans whose individual balances were below $250,000." This being the case the Boston Region Report recommended that it would be worth considering keeping the threshold at $100,000 for loans secured by real estate not meeting the definition of 1-4 family owner occupied.

The FDIC's Memphis, Tennessee Region discovered that weak appraisal practices were major contributing factors to the failure of numerous financial institutions. When asked about the impact of a $250,000 appraisal threshold, the Regional Director reported the following in the Region Report: "<u>In our smaller banks we would be disappointed to see a return to the extremely poor one-page internal appraisals which were prevalent in past years on small (under $250,000) commercial real estate loans</u>."

The FDIC's Dallas Region found that throughout the 1980's and 1990's there have been a significant number of bank failures in the four states covered by the FDIC's Dallas region. The Region and the State of Texas, in particular, led the nation in the number of bank failures in several of these years. Regarding the proposed thresholds, the Regional Director was concerned about its potential impact on small banks. "<u>If you look at the issue on a bank by bank basis, there may be situations, in the case of smaller banks, where the new thresholds would permit credits without conforming appraisals which may constitute concentrations to single borrowers. Obviously deficient analysis in such cases could have disastrous effect on individual banks</u>."

The FDIC's New York Region reported that inadequate appraisal practices were one of the primary reasons for the failure of several BIF-insured savings banks. Stated Nicholas J. Ketcha Jr., Regional Director, "our review indicates that while not all bank failures or large RE loan losses, over the last five years, are significantly attributable to inadequate appraisal practices, they are generally a factor in a bank's poor loan underwriting and/or loan administration practices. In addition, evidence exists that a number of banks also had inadequate re-appraisal practices which either caused additional losses, delayed the write-down of problem

real estate assets and/or hindered a bank's ability to effectively initiate loan workout programs."

__The 1993 OTS Regional Staff Survey On Raising the De Minimis Threshold To $250,000 Clearly Cited The Threat Which It Would Impose On Financial Institutions.__

The OTS senior thrift supervisory personnel cited safety and soundness concerns regarding the increased threshold in response to 1993 surveys. OTS staff in all regions of the country pointed to losses that occurred from deficient appraisal practices for loans below $250,000 and $100,000. Regional Directors were concerned about institutions that would be particularly affected such as small institutions, those with no-doc or low-doc loan programs, and institutions with non-owner occupied single family loans. Many of the OTS Regions did note failures which occurred because of appraisal deficiencies below $250,000. Based on safety and soundness concerns and other matters, each OTS Region offered substantial modifications to the $250,000 threshold proposal.

The West Region noted in its Report that "inadequate appraisal practices on loans less than $250,000 have contributed to capital losses at many West Region institutions." Inflated valuations of one-to-four family dwellings contributed to or caused numerous failures. Many of these loans were concentrated in inner-city areas. Based on this evidence, the Deputy Regional Director of the West Region, concluded:

> "The current trend toward increased losses on home loans under $250,000, demonstrate that poor evaluation of collateral value is a severe risk to an insured institution -- a risk with costs far in excess of the cost of good appraisals....A higher threshold could exacerbate the losses associated with poor appraisal practices."

The West Report pointed out that "well-run financial institutions will continue to insist on conservative appraisal standards because such standards are essential for good underwriting and overall profitability. On the other hand, poorly run and average institutions may still need some regulatory incentive to obtain reliable appraisals."

Within the Southeast Region, two examples of loans under $100,000, and one example of loans under $250,000, resulted in significant financial losses to savings associations. In one of the cases, the Southeast Region Report estimated that "the losses from this operation probably ran close to a billion dollars, and contributed to large losses for a significant number of institutions in the FSLIC system." The examples cited by the Southeast Region were "reflective not only of poor appraisal

practices in the proposed areas of relaxed appraisal requirements, but also represent risk associated with concentrations. Any proposed change to the existing appraisal requirements should contemplate the potential for losses due to concentrations of loans of less than either $100,000 or $250,000."

The Southeast Region of the OTS also pointed out the consumer protection which an appraisal provides. "Initially, it would appear that an increase in the de minimis threshold would benefit borrowers, by decreasing their cost to obtain a loan. However, this benefit is illusory....For uneducated or low income borrowers, although the appraisal is obtained for the institution's benefit, the validation may act as a safety valve for the transaction. It is often the only other validation of the purchase price that the borrower will have access to."

The Midwest Region Report found that material contributions to failure, and arguably some failures, have resulted from appraisals on Acquisition, Development and Construction loans/projects which took into account estimated appraisals of many individual properties valued at $250,000 or less. "Some institutions which were direct lenders in such developments suffered substantial losses on properties appraising for $250,000 or less when projected absorption periods in the overall project appraisal did not match sales activity."

Two regions noted that liquidity could be adversely affected if a higher threshold was instituted since Fannie Mae and Freddie Mac might not be willing to buy the loan in the secondary market. In fact, the Central Region noted that a higher threshold may add to a thrift's costs.

> "From a thrift's perspective, it may actually add to the cost if in the past the thrift has been heavily reliant on the appraised value of the property as the dominant factor when making the credit decision. Without the appraisal, the institution will likely have to do more in the way of credit analysis and the borrower's underlying ability to repay the debt. This could increase rather than decrease staffing costs for the institution."

Based on the evidence, each OTS Region proposed substantial modifications to the threshold. The OTS Southeast Region Report argued that if the de minimis threshold is adopted, "consideration should be given to limiting the percent of assets which utilized the de minimis threshold." The Northeast Region indicated that a higher appraisal threshold should not apply to non-owner occupied real estate, including 5+ residential. The Central and West Regions concluded that limits to the threshold be set according to an institution's asset quality or capital. Also, a lower threshold could be required for out-of-area lending.

It should be noted that the concerns of the OTS regulatory personnel were consistent with concerns expressed by the SCBA in their July 20, 1993 comments to the agencies. Stated the SCBA:

> "In addition to raising questions about the assumptions on which the proposal is based, SCBA members have some reservations about the implications for the safety and soundness of the industry if the proposal [$250,000 threshold] should be implemented. SCBA believes that there is an additional element of risk if financial institutions generally were permitted to underwrite portfolio loans without appropriate appraisals. It would be the institutions most inclined to make risky loans that take advantage of a lowered threshold."

OCC Senior Bank Supervisory Personnel, In Response To A 1993 Questionnaire, Cited Safety And Soundness Threats Which Could Be Imposed By A 250,000 Appraisal Threshold.

In August of 1993, OCC distributed to 20 senior bank supervisory personnel a questionnaire seeking information on their observations of the relationship between bank failures or banks experiencing significant losses on real estate loans at national banks and inadequate appraisals. The responses to this questionnaire revealed concern among agency personnel regarding elements contained in the appraisal proposal.

Fifteen of the twenty personnel stated that banks under their supervision had failed or had significant losses within the last five years because of inadequate appraisals. A number of losses occurred on loans below $250,000: One respondent cited the $100,000-$250,000 transaction range as the size category which contained the most significant losses attributable to inadequate appraisals and by another as the size category which contained the third most significant losses attributable to inadequate appraisals.

II. THE AGENCIES DO NOT HAVE SUFFICIENT DATA TO JUSTIFY A HIGHER THRESHOLD

The agencies have issued their $250,000 proposal without sufficient data in which to support their claim. Numerous government and industry studies expose this fact and make it clear that a strong appraisal process is essential.

Office of Management and Budget Concluded That A Higher Appraisal Threshold Should Not Be Imposed On Commercial Transactions

The OMB conducted a study, which was reported to Congress in August of 1992, to determine if a higher de minimis level is desirable for commercial real estate

transactions. The OMB reviewed the available information concerning the appraisal regulations and interviewed eighteen affected agencies, organizations and financial institutions. After conducting this comprehensive study, entitled De Minimis Levels for Commercial Real Estate Appraisals, the OMB concluded that a de minimis level for commercial Federally related transactions should not be higher than $100,000. This recommendation was "based on the inconclusive nature of available data and other findings," including the fact that approximately 45 percent of all commercial real estate transactions fall below the $100,000 de minimis level. The OMB found that "an increase in the de minimis level for commercial appraisals is not appropriate until the appraisal reform provisions of FIRREA can be evaluated based on full implementation and more complete and reliable data.

The OMB was concerned about an increase in a commercial threshold because "the importance of an appraisal increases with the riskiness of the transaction. Therefore, appraisals by licensed or certified appraisers should be particularly valuable for commercial real estate lending, which tends to be more risky than residential lending."

FFIEC, After Extensive Review And Analysis, Concluded That A Higher Threshold Could Not Be Legitimately Imposed Based On the Data

The Federal Financial Institutions Examination Council (FFIEC), in its December 17, 1992 Study on Regulatory Burden, reported on possible revisions of agency regulations and requirements that could reduce unnecessary regulatory burden on banks and savings associations. To meet the requirements of Section 221 of FDICIA, the four federal banking agencies and the Department of Treasury undertook internal review of their policies, procedures, recordkeeping and documentation requirements. In addition, an interagency task force assembled the public comments that the Federal Deposit Insurance Corporation, Office of Thrift Supervision and OCC had received in response to their Spring 1992 requests for comments on regulatory burden. FFIEC requested public comments specifically on Section 221 and received 449 additional letters. In addition, FFIEC held hearings in Kansas City, San Francisco and Washington, DC in June 1992. After conducting this extensive analysis, FFIEC issued its report, entitled *Study on Regulatory Burden*, on December 17, 1992. The Study, in addressing the appraisal threshold, concluded that "changes to the threshold should be considered only after further experience with the current threshold [$100,000] permits the development of more information concerning this matter." FFIEC further recommended that an "independent, nonpolitical group review possible regulatory reforms.

1992 General Accounting Office Study On Implementation Of Title XI Has Found No Sufficient Data To Justify An Appraisal Threshold Increase

In 1992, the GAO conducted a study which specifically reviewed the implementation of Title XI. In this report, the GAO, pursuant to a request from the Honorable Doug Barnard, Jr., Chairman of the Commerce, Consumer, and Monetary Affairs Subcommittee, reviewed the implementation of Title XI. On October 30, 1992, the GAO delivered its results to Chairman Barnard. In the Report, the GAO pointed out that the primary argument against a $100,000 threshold is that "low and moderate income homebuyers would not have the opportunity to have their single largest investments appraised by individuals who have successfully demonstrated their competency and whose performance is subject to supervision." The GAO discovered that supporters of the $100,000 threshold "contend that the cost of complying with the regulations for transactions below the de minimis threshold would outweigh any likely reductions in losses." However, the GAO concluded that "since neither side has presented sufficient data to support their concerns, the federal financial institutions regulatory agencies and RTC would have to analyze residential real estate lending data to determine the impact of the de minimis threshold on homebuyers as well as on the safety and soundness of financial institutions." In other words, the GAO concluded that, without sufficient, reliable data, no agency could legitimately make a 'safety and soundness' determination concerning the effect of a de minimis threshold.

1985 Report Issued By House Subcommittee on Commerce, Consumer and Monetary Affairs Found That Appraisal Abuses Contributed To Serious Losses Throughout The Entire Real Estate Industry. These Findings By Congress Led To Implementation Of The Important Safeguards Of Title XI

Substantial historical evidence discovered by Congress led to passage of the Title XI safeguards. This evidence shows that appraisals not performed by professional appraisers have a dramatic impact on the safety and soundness of our nation's financial institutions.

In December of 1985 the House Subcommittee on Commerce, Consumer and Monetary Affairs issued a report entitled the "Impact Of Appraisal Problems On Real Estate Lending, Mortgage Insurance, And Investment In The Secondary Market." In this Report, the Subcommittee found that hundreds of savings and loans association were "severely weakened or declared insolvent because faulty or fraudulent real estate appraisals provided documentation for loans larger than justified by the collateral's real value." Between January 1983 and mid-October 1985, the real estate loan portfolios of more than 25 percent of the federally insured thrifts were found to have "appraisal deficiencies." In many of these thrifts, "appraisal-related problems contributed significantly to their being placed in problem status or declared insolvent."

The Subcommittee also found that significant appraisal problems plagued large numbers of commercial banks and credit unions regulated by the Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), Federal Reserve System (FRS), and National Credit Union Administration (NCUA). The Subcommittee estimated that "appraisal abuses and deficiencies have, in varying degrees, contributed to hundreds of millions of dollars in losses, hundreds of weakened and/or failed institutions and hundreds of enforcement actions." This included three major OCC-supervised institutions, the Bank of America, Wells Fargo Bank, and Continental Illinois National Bank and Trust Company, which experienced combined appraisal related losses from real estate loans or mortgage backed securities that were expected to exceed $300 million. The NCUA reported that appraisal problems (i.e., inflated values due to self-serving and the failure to obtain adequate appraisals from a qualified appraiser) in connection with real estate loans have become a cause for serious concern.

While there were many factors which contributed to the large number of losses, the Subcommittee found that a number of lending institutions regarded "appraisals as an obstacle to be overcome or a rubberstamp necessary in order to make a real estate loan under consideration....Many lending institution officers, directors, and managers are demonstrably more interested in up-front fees and other tangible benefits occurring from a completed loan transaction, than they are with being assured that their institution's risk exposure is minimized by an accurate assessment of the actual market value of the loan's underlying collateral."

These Congressional findings led Congress to pass the appraisal reform amendments in Title XI of FIRREA to provide that "Federal financial and public policy interest in real estate related transactions will be protected by requiring that real estate appraisals utilized in connection with federally related transactions are performed in writing, in accordance with uniform standards, by individuals whose competency has been demonstrated and whose professional conduct will be subject to effective supervision."

1989 GAO Study Concerning Thrift Failures In The 1980's Cited Appraisal Abuses As A Major Contributing Factor To Thrift Failures.

A 1989 GAO Study, entitled "*Costly Failures Resulted From Regulatory Violations and Unsafe Practices,*" reviewed regulatory and examination documents related to 26 thrifts which failed between January 1, 1985, and September 30, 1987. The 1989 GAO Study cited appraisals as a major factor in losses experienced by these thrifts. Stated the GAO on page 33 of its Report:

> "Appraisals are vital for both sound underwriting and also for investment decisions involving real property. Examiners

> noted violations of the regulations requiring appraisals for loans secured by real estate in 23 of the 26 failed thrifts....Examiners found the thrifts accepted appraisal reports that were not adequately or accurately substantiated as required. Other times, examiners noted that thrifts did not obtain an appraisal at all or obtained one only after a loan was already made. Examiners often noted that thrifts accepted appraisals requested by borrowers rather than by the thrift itself."

An Independent Bankers Association Of America (IBAA) Study Showed The Importance Of The Appraisal Regulation

The IBAA conducted a study of thirteen sets of regulations affecting banks that were considered to be most burdensome, focusing on regulatory burdens, costs, redundancy and necessity. G. Thornton Regulatory Burden: Cost to Community Banks (Jan. 1993), a study prepared for the IBAA. The study utilized field interviews, data review, and a national survey to analyze these issues, and the IBAA broke out the data according to the banks' size and/or assets. Significantly, the IBAA study identified appraisal regulations as the fourth most necessary and beneficial regulation for the safety and soundness of banks. Of the thirteen regulations, the appraisal requirement was the second least burdensome with respect to costs and time for annual compliance.

III. THE APPRAISAL REQUIREMENTS OF TITLE XI PROVIDE A VERY IMPORTANT PROTECTION TO OUR NATION'S CONSUMERS, PARTICULARLY FOR THOSE INDIVIDUALS WHO MAY BE SUBJECT TO IMPROPER LENDING DISCRIMINATION.

In addition to safety and soundness benefits, the appraisal requirements of Title XI provide a very important protection to our nation's consumers.

An independent valuation of collateral performed in accordance with appropriate industry standards helps protect consumers against unfair and deceptive financial practices. On May 19, 1993 Comptroller Ludwig testified before the Senate Banking, Housing and Urban Affairs Committee regarding reverse redlining: the targeting of low-income communities for loans secured by the borrowers' home that have unfair terms and conditions. In his testimony, the Comptroller cited "lenders who rely on the borrowers' trust, lack of sophistication, and limited access to other financial resources, to talk them into loan repayment terms they cannot possibly meet."

The types of circumstances the Comptroller described highlight the need for an appraisal process that is subject to industry standards and state enforcement. The CFA and Consumers Union have argued for appraisal reform in order to protect potential homebuyers. On May 1, 1992, CFA testified before the House Banking Committee and urged Congress to lower the appraisal threshold , below which a licensed and/or certified appraiser would not be required, to $10,000. Concerned especially for low and moderate income applicants, CFA argued:

> "[H]omes that are valued at less than $100,000, of which approximately 50% of those that sell each year are, can just as easily be subjected to false appraisals as those in the higher price range. Low income consumers must still have an appraisal and pay for an appraisal, to get a home mortgage loan from most lenders. If an appraisal is arranged by a real estate broker, intent on finalizing a deal at the contract price, a low income person could easily be subjected to false appraisals that simply put the house value at the contract price without evaluating the market properly, without evaluating the site properly....Low and moderate income consumers, particularly in a recession period, have to move often to find and hold a job. They enter a real estate market they have no knowledge of and can be taken for thousands over the actual market price."

Raising the appraisal threshold could be particularly damaging in today's lending climate. Many transactions affected by the higher threshold would be ones that occur in inner cities and rural areas. For these transactions, those which are not sold in the secondary market, valuations of property would not be subject to appraisal industry standards and state enforcement. This could impact homebuyers and small business people who may be subject to improper discriminatory lending practices. As stated in the American Bankers Association (ABA) Mortgage Lending Task Force Report issued on May 21, 1992:

> "While appraising is not an exact science, an accurate appraisal is a critical element in the mortgage lending process because it determines the dollar amount of mortgage loan a property will support. If the appraisal is below market value, potential buyers will have to make a large down payment - and this may make the purchase impossible. ABA has begun a cooperative effort with the Appraisal Institute to identify the problems from both the lender and appraiser perspective."

The findings in the ABA's Mortgage Lending Task Force Report were reinforced by February 24, 1993 testimony of ACORN before the Senate Banking Committee. ACORN was concerned that a lack of effective appraisal standards would lead "appraisers [to] low-ball properties in low-income and minority communities, making many homes unmortgageable. Uniform standards to guard against this practice should be created, and if necessary, a federal regulator within HUD should be established to monitor compliance."

The proposal to raise the appraisal threshold to $250,000 is inconsistent with the lending discrimination initiatives advanced by the agencies. In fact, on May 27, 1993, the heads of the four Federal financial institutions regulatory agencies sent a letter to all banks and thrifts addressing the concern that "some minority consumers and small business owners are experiencing discrimination by lenders, federal bank and thrift supervisors." The agency heads urged bank and thrift institutions to increase their fair lending activities, including utilizing "appraisal standards that preserve safety and soundness criteria while responding to special factors in low and moderate income and minority communities."

The OCC's Examining Bulletin 93-3, entitled "Examining for Residential Lending Discrimination," underscores the importance of a sound appraisal process, particularly in low and moderate income areas. Appendix H of Examining Bulletin 93-3 cites various instances in the home loan process where "impermissible factors may come into play, with results that would be influential but not visible when underwriting standards are applied to the applicant's apparent qualifications." Factors to be analyzed in the appraisal process include the neighborhood ratings on appraisal reports, the appraisal report's opinion regarding the functional obsolescence or unmarketability of a property, as well as the "market value" or "sales comparison" appraised values for properties in certain neighborhoods.

The agencies appraisal rules are important to consumers because they all contain an essential enforcement provision which states that institutions and institution-affiliated parties, including staff appraisers and fee appraisers, may be subject to removal and/or prohibition orders, cease and desist orders, and imposition of civil money penalties. In their September 16th, 1992 testimony before the Subcommittee on General Oversight and Investigations, the FDIC addressed the importance of a state enforcement mechanism: "Without a state regulatory framework, it is very difficult to stop appraisers from engaging in inappropriate appraisal practices. The state agencies can not discipline unethical or incompetent appraisers."

The Home Mortgage Disclosure Act (HMDA) data and the 1992 Report by the Federal Reserve Board Bank of Boston indicate that Blacks and Hispanics applying for mortgage loans at lending institutions were more likely than white

applicants to be denied credit. The HMDA data and the Boston study highlight the necessity of addressing all factors that may account for this disparity. Ensuring that all applicants receive the benefit of a skilled professional appraiser, accountable to the State and accountable under industry standards, is the kind of proactive step that can and should be taken by the agencies.

The Appraisal Institute, whose designated members and affiliates are held accountable to a stringent code of professional ethics, is eager to work with the agencies to craft policies and procedures which would assure equal access to mortgage credit for all individuals. We are currently working with the secondary market to develop educational programs focusing on inner city appraisal practices.

IV. DATA REVEALS THAT APPRAISAL COSTS AND APPRAISAL DELAYS HAVE NOT RISEN SINCE IMPLEMENTATION OF TITLE XI. IN FACT, EVIDENCE SUGGESTS THAT APPRAISAL COSTS HAVE DECREASED DUE TO COMPETITION IN THE MARKETPLACE.

In its 1992 annual Report submitted to Congress, the Appraisal Subcommittee of FFIEC found that over 66,000 real estate appraisers were licensed and certified. Today the number is over 80,000 which is sufficient to perform the appraisal work in the country. With the numbers still increasing, marketplace competition has kept appraisal fees stable and many areas report a significant decrease in appraisal fees. The reason for the lower appraisal fees is that the requirements for state licensing are not burdensome. The Appraiser Qualifications Board (AQB) of The Appraisal Foundation has recommended minimum qualifications of seventy-five hours of education, 2,000 hours of experience, and passage of a State examination as being adequate minimum qualifications. Seventy-five hours represents course work of roughly two and a half weeks. Further, in the event that an individual may lack the necessary education or experience required for licensing, they may take advantage of transitional licensing in many states.

The cost of an appraisal is a very small component in the total fees and costs that are associated with a real estate transaction. Loan origination fees, title insurance, credit reports, surveys, environmental audits, and brokerage commissions are all costs, in addition to an appraisal fee, that must be accounted for in a real estate transaction.

There is no quantifiable evidence which supports the conclusion that appraisal costs have risen or that appraisal delays have occurred since implementation of Title XI. This lack of quantifiable evidence was highlighted by the Federal Reserve System in its May 10, 1993 and August 25, 1992 "Requests for

Information on Real Estate Appraisal Practices." The FRS solicited information from the Federal Reserve Banks concerning the agencies' proposed appraisal regulations. Regarding appraisal costs and delivery time for appraisals, the Federal Reserve Banks acknowledged that there was no documented evidence to support any of the anecdotal claims by bankers of higher appraisal costs or increased appraisal delays.

The findings by the Federal Reserve Banks are consistent with the results of a national survey by the CFA, on behalf of its 50 million members, which indicate that appraisal costs have not risen and that there is no correlation between a certification, or even a designation, and the cost of an appraisal. According to the CFA, "certification of some sort is already wide-spread and easy to find and banks and mortgage companies all require the standard forms they provide, CFA finds no evidence of added costs that would substantially alter the price of appraisals for the consumer." In addition, ISD, a financial services consulting firm in Washington, DC, conducted a study entitled "Safety and Soundness Implications of Alternative De Minimis Tests." The ISD study concluded that appraisal fees and bank operating costs should not increase under a low threshold test. The new licensing procedures, according to ISD, "should spur an increase in the supply of appraisers, helping to reduce prices."

These findings underscore the fallacy of the argument that appraisal fees or appraisal delays are contributing to a credit crunch or that appraisal fees negatively impact consumers. Without the Title XI appraisal requirements in place, consumers would feel the cost without receiving a benefit. As stated in a November 27, 1993 Washington Post article entitled "*Cost-Cutting Rules Sought On Appraisals*," "they [consumers] would be charged the same amount as they'd pay for a licensed appraisal but would receive a valuation by an individual who had not passed the minimum educational and experience tests for certification required of appraisers in all 50 states."

V. BANKS ARE EXPERIENCING RECORD PROFITS

Since implementation of Title XI of FIRREA, banks have experienced record profits. Insured commercial banks reported record profits of $11.45 billion in the third quarter of 1993. Total assets of commercial banks increased by $62 billion in the third quarter, the largest quarterly increase since the fourth quarter of 1989. This follows the $10.4 billion earned by commercial banks in the second quarter of 1993, and the $10.9 billion earned in the previous quarter. Through the first nine months of 1993, the net reduction in banks' inventory of other real estate owned has totaled $5.8 billion. Troubled assets are now at their lowest level since the first quarter of 1989, and represent the smallest percentage of total assets since

the fourth quarter of 1986. These figures are in stark contrast to earlier banking results. In 1987, for example, the FDIC quarterly Banking Profile reported that U.S. Banks posted the lowest returns since the great depression. In 1988, the FDIC experienced a full-year operating loss for the first time in its history. That year, costs associated with the resolution of banking problems, especially those in Texas, caused the deposit insurance fund to decline by slightly more than $4 billion.

VI. SECONDARY MARKET, WHICH REQUIRES USE OF PROFESSIONAL APPRAISERS FOR ALL TRANSACTIONS, IS EXPERIENCING RECORD PROFITS AND MORTGAGE ORIGINATION ACTIVITY

Fannie Mae and Freddie Mac, which supported the enactment of Title XI of FIRREA, and have required their lenders to be in compliance with state laws for licensing and certification of real estate appraisers, have reaped the benefits of the important appraisal safeguard. Propelled by record mortgage origination activity, Fannie Mae and Freddie Mac have recently experienced record setting volume and earnings. Fannie Mae's net income in 1992 totaled over $1.6 billion. In the first quarter of 1993, Fannie Mae's reported net income was $443.6 million, up from $381.6 million earned a year ago. In June of 1993, Fannie Mae did a record $28.5 billion in business. During this time period, refinancings comprised a record amount of Fannie Mae's purchases. Not to be outdone, Freddie Mac's reported net income was $200 million for the third quarter of 1993, up from $180 million a year earlier. Stated Freddie Mac Chairman Leland C. Brendsel, in response to these figures, "strong earnings growth and near-record business volumes once again demonstrated the fundamental financial strength of the corporation." See American Banker, "*Freddie's Net Up 24%, Spurred By Refinancings*," October 20, 1993.

Fannie Mae has stated to Congress the importance of the appraisal process in ensuring safety and soundness. In a January 4, 1993 response to a question posed by this Subcommittee, Fannie Mae stated:

> "Fannie Mae strongly supports a national industry-wide licensing/certification program to regulate all real estate appraisers and we do not consider such a regulatory scheme to be a burden if it is properly implemented. We believe that such a system should significantly strengthen the appraiser's accountability for the quality of the appraisal report."

VII. CREDIT UNIONS ACKNOWLEDGE APPRAISAL REGULATION AS CONTRIBUTING FACTOR TOWARDS SUBSTANTIAL PROFITS AND LOW DELINQUENCY RATES

Credit Unions also acknowledge the appraisal regulation as a contributing factor towards substantial profits and low delinquency rates. In its September 16, 1992 testimony before this Subcommittee, the National Credit Union Administration (NCUA) stated that the "adoption of its appraisal rule is one of several actions the agency has taken to ensure that credit unions maintain mortgage loan portfolios which match the safety and soundness of existing consumer loans." The results have been encouraging. The credit unions have reported substantial profits while delinquency rates for all loans by federally insured credit unions reached its lowest level ever in June of 1992 at 1.4 percent. The delinquency rates for real estate loans was at 1.2 percent. The Credit Unions have maintained a lower appraisal threshold than that which is proposed by the agencies.

For the reasons cited in my testimony today, I urge the agencies to abolish their ill-advised $250,000 threshold proposal and allow for appropriate utilization of the Departure Provision of USPAP. I appreciate the opportunity to testify before your Subcommittee and look forward to working with you in the future.

The Council
of Appraisal & Property Professional Societies

American Society of Appraisers (ASA)
International Right Of Way Assoc. (IRWA)
National Association of Independent Fee Appraisers (NAIFA)
National Society of Real Estate Appraisers (NSREA)

TESTIMONY OF THE

NATIONAL SOCIETY OF REAL ESTATE APPRAISERS

And The

COUNCIL OF APPRAISAL & PROPERTY PROFESSIONAL SOCIETIES (CAPPS)*

Presented By

MR. ROBERT HUGHES, PRESIDENT,
National Society of Real Estate Appraisers

On

THE BANK REGULATORY AGENCIES' RULEMAKING PROPOSAL
TO RESTRICT THE USE OF CERTIFIED AND LICENSED APPRAISALS IN
FEDERALLY RELATED TRANSACTIONS

Before The

SUBCOMMITTEE ON GENERAL OVERSIGHT, INVESTIGATIONS & THE
RESOLUTION OF FAILED FINANCIAL INSTITUTIONS
Of The
COMMITTEE ON BANKING, FINANCE & URBAN AFFAIRS

U.S. House of Representatives

March 1, 1994

*CAPPS Member Organizations:

The American Society of Appraisers;
The International Right of Way Association;
The National Association of Independent Fee Appraisers;
The National Society of Real Estate Appraisers.

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I. INTRODUCTION

Mr. Chairman and members of the Subcommittee, my name is Robert Hughes and I am the current President of the National Society of Real Estate Appraisers (NSREA). I am appearing this morning as the representative both of The National Society and the Council of Appraisal & Property Professional Societies (CAPPS), of which we are a founding member. I would like to briefly describe the two organizations:

The National Society of Real Estate Appraisers is a predominantly African-American organization organized in 1956, with membership in most of our larger cities. Because many of our members live and work in urban centers, we are recognized as being particularly knowledgeable about appraisal and lending practices in these areas.

CAPPS, which has a collective national membership of more than 25,000 appraisers, was established in 1991 by four of the country's major professional appraisal societies to promote public policies that foster appraiser professionalism and integrity. CAPPS has played a leadership role in the Nation's Capital and in state capitals over the past several years in an on-going effort to preserve and build on the important appraisal reforms enacted by Congress in 1989, known as Title XI of FIRREA. CAPPS member organizations, are:

-- The American Society of Appraisers;

-- The International Right of Way Association;

-- The National Association of Independent Fee Appraisers; and

-- The National Society of Real Estate Appraisers.

Mr. Chairman, we are extremely pleased to be appearing before you this morning; and we are particularly gratified that this important hearing, on the future of appraisal reform, is being conducted by the Subcommittee On General Oversight, Investigations, & Resolution of Failed Financial Institutions. Of all the Subcommittees of the Banking Committee, yours has primary responsibility for understanding the full range of banking laws enacted by Congress <u>and their crucial impact not only on safety and</u>

soundness but also on consumer protection and equal credit opportunity. We do not believe it is an exaggeration to state that if the bank regulators' proposed rulemaking is finalized in anything like its present form, it will not only put an end to FIRREA's appraisal reforms, it will produce a situation where the federal government's appraisal requirements will be weaker by far than they were prior to the enactment of FIRREA.

II. BACKGROUND AND STATUS OF TITLE XI

Mr. Chairman, each member of CAPPS was involved in Congressional hearings conducted by your former Banking Committee colleague, Congressman Doug Barnard, in the mid to late 1980s, which examined the impact of appraisal abuses on federal financial and public policy interests; and, later, in the legislative debates on how best to assure the integrity of appraisals in federally related transactions. These hearings and debates led, of course, to the enactment of appraisal reform legislation, Title XI of FIRREA, which became mandatory, for federal purposes, on January 1, 1993.

Since its enactment, there has been a great deal of activity surrounding Title XI's implementation and its anticipated impact in the marketplace. The good news is that almost four years after FIRREA was signed into law, appraisal reform is finally a reality across the nation: each of the 50 states has a fully functional appraiser licensing board overseeing the work of more than 70,000 licensed and certified appraisers. For the first time in our history, taxpayers and consumers are the beneficiaries of a self-supporting, state-run system that assures the competency, independence and accountability of individuals who are responsible for valuing properties collateralizing loan transactions collectively worth hundreds of billions of dollars.

Appraiser certification and licensing (and the professional accountability that comes with them) make it much less likely that appraisers can be pressured into overvaluing collateral to facilitate unsafe lending practices; or into undervaluing collateral in support of red-lining and other discriminatory loan practices.

The bad news, is that there are still some who want to "turn back the clock" to the "good old days" when a loosely supervised underwriting process allowed financial institutions to make millions of inadequately collateralized "no doc" and "low doc" real estate loans. Although billions of dollars remain to be paid before the banking mess of the 1980s is cleared from the government's books, there are some who want to repeal or water down the safety and soundness safeguards and consumer protections -- including appraisal reforms -- enacted by Congress in response to that crisis.

In this regard we think it is important for members of the Banking Committee to understand who is advocating the elimination or weakening of appraisal reforms and who is not?

The answer is that it is not the states which have responsibility for regulating professional appraisal practice. It is not consumers who pay for and benefit from an independent appraisal. It is not inner-city home buyers who have been victimized by the "low-ball" valuations of unregulated "appraisers". It is not professional appraisers who have shouldered the burdens of becoming licensed and certified. It is not the National Association of Realtors which is opposed to an increase in the residential de minimis. It is not the thrift industry which learned some hard lessons in the 1980s about appraisal abuses and about knee-jerk opposition to reform. It is not even the small business community which, while concerned about the availability of credit, has never complained about the appraisal process. And, Mr. Chairman, it is not most federal agencies and enterprises, like FHA, VA, Fannie Mae, Freddie Mac and the Office of Management and Budget, all of whom appear to oppose the kind of massive Title XI loopholes proposed by the bank regulators.

Instead, support for the creation of these massive loopholes comes only from the commercial bank trade groups in Washington and whose members, we are told, are now extremely profitable.

III. THE BANK REGULATORS' RULEMAKING PROPOSAL IS A MAJOR SETBACK FOR SAFE AND SOUND LOAN UNDERWRITING; FOR CONSUMER PROTECTION; AND FOR FAIR LENDING PRACTICES

Mr. Chairman, we have the most serious concerns about the banking agencies' rulemaking proposal. This proposal, if finalized in its present form, would dramatically reduce the number of transactions subject to FIRREA's appraisal reform requirements. For residential mortgage lending, the proposed threshold of $250,000 is tantamount to a repeal of Title XI. Additionally, the creation of a $1 million dollar threshold for commercial loans would permit the underwriting of hundreds of thousands of collateralized loans to small and medium sized businesses without any professional appraisal of collateral or without any valuation whatsoever.

While our organizations support regulatory relief initiatives when they are consistent with consumer protection and safety and soundness, the regulators' rulemaking proposal is an act of regulatory backsliding which will have three devastating public policy consequences:

First, it will severely compromise the government's responsibility to prevent a recurrence of the pattern of unsafe and

unsound underwriting practices that gave rise to the recent multi-hundred billion dollar banking crisis.

Mr. Chairman, contrary to what you have been told, residential and small commercial loans are extremely vulnerable to borrower defaults; and financial institutions do suffer large annual losses in connection with such lending. These losses are itemized in an analysis (attached to our testimony) we prepared last July in response to the rulemaking proposal. This analysis, entitled, "Delinquencies, Defaults & Losses On Federally Related Real Estate Loans," demonstrates that federally insured banks and thrifts own billions of dollars worth of single family properties on which borrowers' have defaulted; and that home mortgage loans worth tens of billions of dollars more are substantially past due. Moreover, bank losses on residential loans would be even greater except for the fact that FHA, VA and the private mortgage insurance industry absorb all losses on tens of thousands of defaulted residential loans originated each year by the banks.

We urge the members of the Subcommittee to review this analysis because it illustrates that professional appraisals on residential and small commercial loans are essential to minimize financial institution real-estate related losses when borrowers' default.

We also wish to point out that while even very large lenders suffer significant losses on smaller real estate related loans, small and medium sized institutions are especially vulnerable. That is because the loan portfolios in many smaller financial institutions, are composed predominantly of residential and commercial real estate credits below the dollar thresholds proposed in the rulemaking. Notwithstanding the fact that the real estate collateralizing these loans are material to assuring repayment in the event of borrower default, these institutions, under the rulemaking, would be allowed not to conduct valuations of the collateral; or to have valuations performed by loan officers and others who are neither licensed or certified;

Second, the proposed rulemaking will seriously undermine the Administration's commitment both to stamp out "redlining" and other forms of discriminatory loan practices; and to support economic development in our nation's urban centers. We must acknowledge that all too often, compliant appraisers have been used by lenders to "low-ball" estimates of a property's value in a misguided effort to deny credit to minorities or those in the inner-cities of our country. It is also true, that when appraisers overvalue property (either deliberately to meet a seller's asking price; or inadvertantly because of a lack of expertise), the result is that consumers end up taking on more debt than they can afford. It is ironic that by proposing the exemption of millions of residential and small commercial loans from professional appraisal requirements, the bank regulators are unwittingly undercutting

<u>their own policies to prevent loan discrimination and to promote economic development in America's central cities</u>.

This is because only certified and licensed appraisers are directly accountable - through the possible loss of their license - for ethical misconduct, such as the deliberate low-balling or "high-balling" of property values. By contrast, the use of non-licensed individuals to perform valuations eliminates that accountability and greatly increase the likelihood that low-ball appraisals will continue to be used to "justify" denials of credit -- contrary to the federal regulators' policies.

As an example, Mr. Chairman, consider how the proposed rulemaking would undercut the recent action of the Federal Reserve Board (under an amendment to the Equal Credit Opportunity Act), requiring lenders to make available to borrowers, copies of appraisals and other valuations of collateral - so that borrowers can more readily identify discriminatory appraisal and loan practices. We believe that the Board's recent rule will be severely blunted if, instead of receiving a properly formatted appraisal report signed by a licensed or certified individual, borrowers are given a "back of an envelop" statement of value written by someone who has no formal training as an appraiser; who does not adhere to Uniform Appraisal Standards; who has no license to lose; and, who is accountable only to a financial institution's chief loan officer.

<u>Third</u>, the rule, as proposed, will deprive millions of consumers who are buying a home of a truly independent assessment of the market value of the most important credit purchase of their lives -- one they will be obligated to repay each and every month for the duration of the mortgage loan.

We urge the Subcommittee to keep in mind that there are many fees associated with the purchase and financing of a residential or commercial property. While property buyers should not be required to pay for any service that does not protect them or the lender, the appraisal protects both; and the appraiser's fee is at the lowest end of such costs.

Mr. Chairman, because there is an abundance of certified and licensed appraisers across the country; because certification and licensing has not increased the costs of professional appraisals (in most cases they have remained steady or have increased only slightly; and, in some places, have even declined); because professional appraisals protect taxpayers and middle and lower-income consumers from abusive lending practices; and because the proposed rulemaking would put the bank regulators' appraisal policies at variance with those of the rest of the federal government, we believe that the rulemaking is ill-advised and contrary to good public policy.

IV. PENDING CHANGES IN THE UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE (USPAP) WILL ACCOMPLISH ALL THE BANK REGULATORS' PURPOSES, BUT WITHOUT ANY SACRIFICE OF SAFETY & SOUNDNESS AND CONSUMER PROTECTION

Mr. Chairman, notwithstanding our strong opposition to the proposed rulemaking, we agree that lenders should have **reasonable** flexibility to determine for themselves whether full appraisals are necessary under all underwriting scenarios. If, for example, a borrower is putting a large amount of cash into the purchase of a home or commercial property, we obviously would agree that a full appraisal of the property's market value is not an essential safety and soundness factor. Similarly, if a property owner were to refinance a loan within a few months of its origination, safety and soundness and consumer protection would not dictate a full appraisal unless real estate markets in the area were extremely volatile. Nor would a full appraisal necessarily be required where lenders take a lien on property out of a <u>true</u> abundance of caution.

But, it is **not reasonable** for regulators to establish arbitrarily high dollar thresholds under which insured financial institutions can make millions of collateralized loans without any valuation of the collateral or with valuations performed by non-licensed individuals. And yet, this is exactly what the proposed rulemaking allows.

Because we believe that reasonable underwriting flexibility <u>is</u> appropriate and that loan transaction costs <u>should be reduced</u> whenever possible without sacrificing consumer protection and safety and soundness, CAPPS members have strongly encouraged the Appraisal Standards Board of the Appraisal Foundation to amend the Uniform Standards of Professional Appraisal Practice (USPAP) -- which govern how appraisals are conducted -- so that certified and licensed appraisers could offer lenders a range of differently priced appraisal products, from full appraisals to Limited Appraisals like "evaluations." Last month the Standards Board adopted these changes in principle and it is expected to formally ratify them at a meeting on March 22nd.

Because the changes to USPAP are extremely relevant to the subject matter of this hearing, I would like to describe them and discuss how they <u>provide the bank regulators with an opportunity to achieve all of their public policy objectives, but in a way that preserves safety and soundness and consumer interests, and promotes regulatory simplicity</u>.

The bank regulators have advised us that they would like their appraisal requirements to accommodate each of the following three objectives: <u>First</u>, giving lenders more flexibility to determine which type of real property appraisal fits the lender's underwriting requirements; <u>Second</u>, reducing transaction costs for

mortgage lending and refinancing; and Third, accomplishing these objectives in a way that protects the safety and soundness of collateralized lending.

We are convinced that the approved changes in USPAP will give lenders much more flexibility; will reduce the overall costs of appraisals; and, will protect consumers and the safety and soundness of collateralized loans. The key to accomplishing all three objectives is to keep all valuations of collateral in the hands of those (acknowledged by the regulators to be) most qualified to estimate property values - state certified and licensed appraisers.

While we believe the proposed dollar thresholds - and even the current threshold - are dangerously high (i.e., they permit far too many loans to be made without a full appraisal by a professional appraiser), we also believe that whatever the threshold, the key to preserving safety and soundness and consumer protection is to require the use of certified or licensed individuals for all transactions, whether they are above or below the threshold and whether the valuation is called an appraisal, an evaluation, or an estimate of value. **Because the changes in USPAP permit certified and licensed appraisers to perform "below the threshold" evaluations, there is no longer any justification for using unskilled and unaccountable individuals for this purpose.**

Mr. Chairman, if instead of finalizing their current proposal, the bank regulators' incorporate the USPAP amendments into a new rule, there will be an important bonus - the establishment of a uniform system of appraisal requirements across all government programs (i.e., the bank regulators' appraisal rules will be much closer to those of FHA, VA, Fannie Mae and Freddie Mac). On the other hand, if the regulators' finalize the current proposal, there will be a major disconnect between their rules and those of these other government entities.

Under the amended USPAP:

(1) Certified and licensed appraisers can invoke USPAP's "Departure Clause" and provide lenders with what is called a **"Limited Appraisal."** In a limited appraisal, while appraisers must adhere to USPAP standards identified as "requirements," **they are permitted to value real property without adhering to any USPAP "guidelines" that are inapplicable to a particular assignment;**[1]

(2) Because USPAP guidelines can be departed from, appraisals should be able to be performed in less time and at less cost than when **Complete Appraisals** are required;

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[1] Approximately half of USPAP's real property appraisal standards are defined as "guidelines"; the other half are "requirements" that can never be waived.

(3) Appraisers are permitted to report the results of their appraisals in any of three separate formats:

-- **"Self Contained"** (all analyses and backup documents are fully detailed in the report);

-- **"Summary"** (all analyses and backup documents are summarized in the report);

-- **"Restricted"** (real property value reported but with limited description of analysis and backup data); and,

(4) Licensed and certified appraisers are permitted to perform "evaluations" (which the bank regulators currently require for collateralized loans under the existing $100,000 de minimis). Indeed, a "Limited Appraisal" is very much like an "evaluation."[2]

The principal time and cost savings under the amended USPAP will come from the ability of appraisers to invoke the Departure Clause and "bypass" all "guidelines" inapplicable to a particular appraisal assignment. Moreover, some additional time and cost savings should result when the appraisal conclusions are reported in "Summary" or "Restricted" format.

The bank regulators already have spent thousands of staff hours and millions of dollars on rulemaking proposals that weaken and complicate Title XI of FIRREA. If they adopt their pending rule, we predict they will need to expend millions of dollars more in efforts to explain and enforce what can only be described as an incredibly confusing set of appraisal requirements.

On the other hand, the regulators can achieve all their public policy objectives in a true atmosphere of regulatory simplicity by simply requiring that all valuations of real property collateral, whether in transactions below or above the threshold, be kept in the hands of independent and professional third parties

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[2] When the bank regulators raised the threshold level to $100,000, they mandated a continuation of their safety and soundness policy that some estimate of a property's value be established by a "qualified" person -- but not necessarily a full appraisal by a certified or licensed individual. They created an appraisal product called an **"evaluation"** for this purpose (they reasoned that the "evaluation" would provide the lender with some degree of safety and soundness protection if the borrower defaulted; and at a lower cost than a full professional appraisal). **It is important to note that in the current proposal to raise the threshold to $250,000, the regulators would abandon, for the first time, any requirement for an estimate of value on collateralized loans below the threshold; and leave that decision entirely to the lender.**

-- certified and licensed appraisers.

V. THE SYSTEM OF APPRAISER CERTIFICATION & LICENSING MINIMIZES THE LIKELIHOOD OF APPRAISER COMPLICITY IN DISCRIMINATORY LENDING PRACTICES

Mr. Chairman, I would like to speak for a moment about a particularly insidious consequence of a lending system without the presence of certified and licensed appraisers and without other adequate checks and balances in the underwriting process. In such a system, appraisers can be pressured into overstating the value of collateral so that loans are made in amounts that greatly exceed the true value of collateral; or, they can be made to understate the value of collateral so that loans are not approved.

Earlier in our testimony, we addressed the safety and soundness enhancements derived from the use of certified and licensed appraisers in the underwriting process. The National Society of Appraisers is particularly familiar with the insidious nature of "low-ball" appraisals, which are an all-to-frequent tool of unscrupulous lenders who seek to "paper over" with bad appraisals, discriminatory denials of loans to certain individuals or to certain low-income communities. As we stated earlier, the Administration's admirable commitment to eliminating discriminatory lending practices is seriously undermined by the proposed Title XI rulemaking. By permitting unlicensed and unaccountable individuals to perform valuations; and by allowing lenders to avoid any valuation of collateral whatsoever, the bank regulators are making it easier for unscrupulous lenders to engage in discriminatory loan practices.

Mr. Chairman, the pervasiveness of redlining and other forms of discriminatory lending has been documented on numerous occasions, in governmental studies, in Congressional hearings and in reports by investigative journalists and the private sector. Attachment # 2 to our testimony lists and describes just a few examples of this documentation.

We do not suggest that certification and licensing of appraisers will guaranty an end to "low-ball" appraisals, let alone the practice of redlining itself. But we are absolutely convinced, based on our professional experiences, that the accountability which comes with certification and licensing -- the threat of a loss of license and livelihood -- will measurably reduce the incidence of such discriminatory lending practices.

VI. MYTH VS. REALITY ON THE APPRAISAL REFORM ISSUE

Mr. Chairman and members of the Subcommittee, the apparently endless debate over appraisal reform has been filled with so much

mythology and misinformation, we think the time is long-past due to get to the truth of the issues. We are confident that if and when that happens, Congress and the Administration will conclude that rolling back the clock on appraisal reform will not increase bank lending and is contrary to the public interest. Let's examine the facts:

__First__, Notwithstanding what you have been told, we believe the federal deposit insurance funds are at considerable risk from carelessly underwritten mortgage and small business loans.

The bank trade groups argue that professional appraisals are not required for millions of real estate related loan transactions because their losses on such loans are insignificant and because these loans do not cause banks to fail. Is this argument correct? We think not:

-- According to recent FDIC call report data, the nation's commercial banks own $3.5 billion worth of single family residential property on which borrowers' have defaulted; and an additional $1.7 billion in multi-family residential REO. Another $12 billion in single family residential mortgage loans and $2 billion in multifamily residential real estate, are either 30-89 days or more than 90 days past due at commercial banks -- much of which will result in default and foreclosure.

Defaults or potential defaults on $15 billion in single family mortgage loans and $3.7 billion in multifamily mortgage loans do not seem insignificant to us. Moreover, while we have been unable to obtain data on the small commercial loan losses of insured institutions, we know in general that small business bankruptcies and loan default rates are high. We believe that the use of professional appraisals in connection with such loans collateralized by real property, would reduce losses substantially when there are defaults and bankruptcies.

The bankers have attempted to convince the Administration that defaults on residential mortgage loans do not cause the insolvency of lenders. We have never argued that faulty and fraudulent appraisals have single-handedly caused the failures of large numbers of lenders. What we do assert, because it is true, is that "safety and soundness" shortcuts in any portion of a bank's loan portfolio can help push an institution into failure if problems develop in another portion of the portfolio. We also point out that given the much higher percentage of home loans now being made by commercial banks, small and medium-sized institutions are indeed at risk if the collateral on large numbers of mortgage and small commercial loans, has improperly been appraised.

Even if it were true that bank losses from residential and commercial loans below the proposed thresholds were insignificant, we wonder why the bankers and the regulators have only sought the

repeal of appraisal requirements. Why, for example, have they not sought - in the spirit of regulatory relief - similar loopholes for requirements pertaining to credit checks of borrowers, title insurance and surveys of the properties collateralizing these loans?

-- Federal agencies that insure mortgage loans and government sponsored enterprises that purchase, package and resell them require certified and licensed appraisals on all of their transactions.

If professional appraisals on virtually all residential mortgage loans made by banks and thrifts are not important, then why do FHA, VA, Fannie Mae and Freddie Mac require and support them? And why has the private mortgage insurance industry been fighting so hard to preserve Title XI? What do they all know that the bank regulators do not?

FHA and VA know that they receive lender claims for more than a billion dollars each year on government guaranteed mortgage loans. Fannie and Freddie know that investors in mortgage products will not invest if there is doubt about the value of the properties collateralizing these products. We believe that what they all know is that hundreds of thousands of borrowers default each year on their mortgage loans and that the only protection standing between the lender (or the lender's guarantor) and a loss, is the value of the collateral. When appraisals are nonexistent, faulty, or biased in a way that automatically supports the loan amount, losses can be staggering.

In this regard, we would like to quote from a letter sent to Congress by Fannie Mae on January 14, 1993:

> Fannie Mae strongly supported the enactment of Title XI of FIRREA and the intent of the Appraisal Reform Amendments -- specifically the acknowledgement of USPAP...and the establishment of minimum qualification criteria for appraisers.... Fannie Mae considers an accurate appraisal to be one of the key elements that assure prudent underwriting of a mortgage loan. The property appraisal assists the lender in determining its exposure to loss... In addition, the appraised value of the property is the part of the lender's determination in the calculation of the loan-to-value ratio of a loan. Therefore, we believe that accurate appraisals are an essential element in originating a mortgage and for subsequent delivery to any investor in the secondary mortgage market.... The importance of collateral and the need for

> an accurate appraisal are not dependent on the dollar amount of the mortgage.... The difficulty of the appraisal assignment is a function of the complexity and uniqueness of the property being appraised, not the amount of the mortgage transaction.

We think it is highly relevant to this hearing to also point out that much of the expert testimony delivered to Congress recently on legislation to create a secondary market for small business loans, stressed the importance of collateral to investors in any such market; and its importance to taxpayers if a Fannie Mae type agency is established to provide liquidity to a small business secondary market.

-- Problem loans to small business also pose significant potential risks to commercial banks. It is not possible to tell from the publicly available call report data either the percentage of small and medium sized business loans in default or the total dollar amount of bank exposure for these loans. What we do know is that the largest bank losses arise in the loan categories involving "commercial real estate loans not secured by real estate" and "highly leveraged transactions." Together, almost 20% of all bank loans in these categories are more than 90 days past due and an additional 7.5% already have been charged-off.

Data from Dun & Bradstreet and the Small Business Administration (SBA) provide some details of small business lending and losses. Dun & Bradstreet, which tracks only some small business loans, reported well over 120,000 small business bankruptcies and other failures in 1991. SBA, which currently makes or guarantees about $25 billion in small business loans, has suffered some staggering losses.

It is generally recognized that lending to small business is inherently risky. Given the fact that most appraisers are themselves small business people and that small business is an important engine of our economy, we fundamentally support such lending. But we also recognize the importance to taxpayers of collateral and the proper valuation of collateral in small business loan situations.

Second, assertions by bank trade groups that Title XI has caused appraisal fees to skyrocket, are false. Bankers have been telling the regulators and members of Congress that residential appraisal costs are now around $1,000 and that delays for appraisals are significant.

Mr. Chairman, the facts tell a much different story. We believe that appraisal fees for residential properties have remained fairly static and in many places have actually declined. As to any increases in a bank's "back office" appraisal costs, we

do not believe that Title XI is responsible.

-- Reports of $1,000 residential appraisals are bogus. Our own informal surveys, which we have provided to the GAO, show that appraisal fees are about where they were prior to Title XI's enactment. More important, data maintained by the Department of Veterans Affairs show that single family residential appraisal costs have increase an average of $50.00 **over the past five years.** Fannie Mae recently has advised Congress that "the predominant fee for a single-family appraisal ranges from approximately $200 to $275..." and that increases in fees since 1988 "have been modest."

We also want to point out that the cost of a residential appraisal in loan originations -- which provides both buyer and lender with important information and protection -- is almost always paid by the borrower <u>and</u> is among the smallest category of costs to families when they purchase a home. No home buyer should be required to pay any fee that is not beneficial to him or that does not enhance the "safety or soundness" of the loan. But, it is a fact that lender points, broker fees, legal costs, homeowner insurance, title transfer taxes and even, occasionally, property surveys, each exceed the cost of the appraisal.

-- Other than the unverified surveys of the bankers, there is no evidence that commercial appraisal fees have increased in any meaningful way since the enactment of Title XI. CAPPS has not conducted any formal studies of price trends in commercial appraisals. But, some informal and admittedly limited surveys strongly suggest that commercial appraisal fees have been static over the recent past. In a March 6, 1992, letter to one of CAPPS member organizations, the Missouri Appraisal Board stated:

> "We just ran the actual logs on five independent fee appraisers [who] are quite typical and their business is primarily commercial appraisals. Their average fee per job was $1,094 in 1986... and $1,299 in 1991. In interviews in my eight state Region, nearly all commercial appraisers state that their fees had not increased and in many cases had decreased; and they did not anticipate an increase until such time as the economy improved and development of non-residential properties began. Any increase in fees was anticipated as a result of supply and demand, not as a shortage of appraisers or additional costs of licensing and certification.... I have one independent contractor in my office who specializes in industrial properties. He states that [on] industrial properties that regularly quoted at $3,500-$4,000, he was bidding $2,500 and being regularly underbid."

-- Both the Comptroller General and a recently completed

study on regulatory burden by the banking agencies, cautioned against any increase in the de minimis at this time.

The Comptroller General of the United States has cautioned against premature changes in FIRREA's and FDICIA's "safety and soundness" reforms. He has stated that "credit crunch" remedies require "sound analysis to determine whether the root causes of unnecessary burden are in the statutes, the implementing regulations, the behavior of the regulators, or some combination of all three factors. **Such analyses," he concluded, "have not been done."** We associate ourselves with his remarks.

We also associate ourselves with the findings of last year's FFIEC "Study On Regulatory Burden," under the direction of Fed Governor LeWare. On the issue of raising the appraisal de minimis, the report concluded that "changes to the threshold should be considered only after further experience with the current thresholds permits the development of more information concerning the matter." (page III-49).

Third, Title XI is not responsible for any sharp increases in appraisal-related internal bank costs.

Last Spring, the "American Banker" newspaper reported that the chairman of Fleet Financial Group had written Congressman Joe Kennedy that the government's appraisal requirements forced him to increase his appraisal staff "to 110, from only 10 a few years ago" and that "annual [appraisal] costs have risen by $30 million."

We do not have any specific information on the Fleet chairman's claim; but we think it is inconceivable that any increases in Fleet's internal costs relating to appraisals are due to Title XI. A more likely explanation is that over the past few years Fleet's inventory of properties from defaulted commercial loans has increased dramatically; and that these properties had to be appraised both for accounting purposes and so that they could be properly priced for resale. Appraisals for these purposes would have been performed by Fleet even without Title XI and their costs would not have been any different.

Fourth, bankers' allegations of excessive delays in the performance of appraisals are incorrect.

Based on our surveys of the appraisal profession and our personal knowledge, we believe that delays in residential and commercial appraisals have not increased as a result of Title XI. With over 70,000 appraisers already licensed and certified, with thousands more in the pipeline, there simply is no evidence of a shortage of appraisers that might lead to delays or excessive costs.

If spot shortages do occur, occasionally, in rural or remote

areas, the Federal Appraisal Subcommittee has provided a "fast track" procedure to grant waivers from Title XI's requirements. It is instructive to note that to date only one small territory outside the continental U.S. -- the Northern Mariana Islands -- has requested a waiver.

As further evidence of what we believe is an ample supply of certified and licensed appraisers, we offer the following analysis. The National Association of Realtors states that each year there are approximately 4.2 million residential real estate transaction each year. Based on informal surveys of our members who are residential appraisers, we have concluded that each full time residential appraiser performs (or is capable of performing) one to two appraisals per day. Assuming two to three weeks vacation per year, that translates into a minimum of 245 appraisals per year, per appraiser.

Currently there are 70,0000 certified and licensed appraisers; and more "in the pipeline." We believe that most of these individuals are residential appraisers. But, if only 30,000 full time residential appraisers are each performing one appraisal per day, they are capable of performing 7.35 million appraisals per year -- almost double the total number of residential transactions now performed annually.

Moreover, with the professionalization of the appraisal industry, there is a strong likelihood that the law of supply and demand will soon produce qualified individuals to become certified or licensed even in remote areas.

Fifth, we believe that many of the bankers' negative claims relating to appraisal costs have nothing to do with Title XI. For example,

~ The U.S. Chamber of Commerce, in conjunction with the American Bankers Association, is supporting bank regulatory relief efforts, including opposition to the following: "Examiners are requiring banks to create internal appraisal review processes and are often requiring banks to obtain second and even third appraisals for loans if they disagree with the current appraisal."

We want to point out that any requirements for internal appraisal review processes or multiple appraisals on a piece of collateral are not based on and have nothing to do with Title XI;

~ Last year, a small businessman from New England told a Senate "credit crunch" hearing that his company's inventory of automation equipment is "no longer considered collateral for loans" by his bank.

We want to point out that Title XI covers real property only and has nothing to do with the small businessman's complaint.

VII. CONCLUSION

Mr. Chairman and members of the Subcommittee, allegations of shortages, excessive fees and other regulatory burdens are currently being investigated on an expedited basis by the GAO. We are willing to cooperate fully with all such investigations and to stand by their results. If the bank regulators are unwilling to recognize USPAP's accommodation of Limited Appraisals and to require the use of certified and licensed appraisers for all loans below whatever threshold is established, we would urge them to at least await the findings of GAO's de minimis studies.

On the larger issue of whether the bank regulators are properly supervising the nation's financial institutions, we fail to understand the "after-the-fact" approach to bank supervision which they seem to favor in carrying out the safety and soundness and consumer protection responsibilities given them by Congress. This approach dictates that deficient banking practices be corrected after a lender makes a sufficient number of bad loans to place it on a "problem" supervisory list; or after injury to a sufficient number of consumers necessitates some regulatory response. In most circumstances, deficient banking practices are only uncovered during the examination process -- a process which takes place once a year, once every two years, and, occasionally, once every three years.

We believe it makes much better public policy sense for the regulatory agencies to build as many protections as possible **into the underwriting process itself on a loan-by-loan basis.** We believe, further, that the valuation of real property by professional appraisers -- who have demonstrated their competency and who are accountable to state licensing boards for misconduct or negligence -- is a major component of such a safe and sound underwriting process.

In a very real sense, certified and licensed appraisers are a private-sector, non-taxpayer supported first line of defense in the regulators' war against unsafe and unsound lending and against "redlining" and other forms of loan discrimination. It would be a tragedy, therefore, if large numbers of appraisers dropped out of the certification and licensing system because the risks and liabilities associated with that system were outweighed by the availability of large numbers of appraisal assignments for unlicensed individuals under the high dollar thresholds being proposed by the bank regulators.

The members of this Subcommittee can prevent that from happening and we strongly urge you to do so.

ATTACHMENT 1

"DELINQUENCIES, DEFAULTS, AND LOSSES ON FEDERALLY RELATED REAL ESTATE LOANS: THE IMPORTANCE OF ACCURATE APPRAISALS OF COLLATERAL"

Analysis Prepared For
The
American Society of Appraisers
(July 8, 1993)

MEMORANDUM

Impact On Federal Financial Interests of Bank Regulatory Agencies' Proposal to Exempt Most Bank & Thrift Loan Transactions From Professional Real Estate Appraisal Requirements Established by FIRREA Title XI

July 8, 1993

I. INTRODUCTION AND BACKGROUND

The Clinton Administration, through the bank regulatory agencies, has proposed a "regulatory relief" plan that will exempt hundreds of billions of dollars of mortgage loans and real estate-secured business loans made by federally-insured financial institutions from the professional real estate appraisal requirements established under Title XI of FIRREA.[1] Among other things, the proposal would (1) raise the threshold for requiring a professional appraisal for all real estate-related transactions from $100,000 to $250,000; and (2) eliminate professional appraisal requirements for business loans of $1 million or less where the sale of, or rental income derived from, the real estate taken as collateral is not the primary source of repayment. These two proposals alone would exempt the majority of all real estate-related transactions from the appraisal requirements established by Title XI.

The Administration claims that the proposed plan poses no significant threat to the safety and soundness of federally-insured financial institutions or to other federal financial interests.

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[1]*See* Notice of Proposed Rulemaking; Real Estate Appraisals; 58 *Federal Register* 31878 (June 4, 1993).

Yet the types of loans for which Title XI appraisal requirements would be eliminated --

- o are extremely vulnerable to borrower delinquencies and defaults; and,
- o result in billions of dollars in annual losses to commercial banks and thrifts and to federal programs which insure or guaranty private sector lending.

Moreover, the assets of federally-insured institutions, especially thrifts and smaller banks (which constitute 94 percent of all banks), are highly concentrated in the types of loans that would be exempt from Title XI under the banking agencies' proposed rulemaking.

While the proposed rulemaking creates numerous categories of exemptions to Title XI, this memorandum's analysis is limited to the two major elements of the proposed plan mentioned above, since they are the only elements for which delinquency, default and loss data are available. However, other portions of the plan which are not examined in this memorandum would permit the underwriting of additional billions of dollars in loans without the benefit of an independent, professional appraisal of real estate collateral.

II. EXECUTIVE SUMMARY

Banking industry proponents of the Clinton plan assert that it presents no significant threat to the safety and soundness of federally insured financial institutions or to other federal financial interests. These claims, however, are refuted by data on federally related real estate loan delinquencies, defaults and losses. The data show substantial risk and losses to the government for 1-4 family residential and other types of real estate lending where the value of the collateral is essential to loan repayment in the event of borrower default. These are precisely the types of transactions that would be exempt from Title XI under the Clinton plan. The following facts are illustrative of these risks:

A. Delinquencies, Defaults & Losses On Federally Related Real Estate Lending

- o During 1992, all residential mortgage lenders nationwide (including commercial banks, savings banks, savings and loan associations, mortgage banks and life insurance companies):
  - -- foreclosed on roughly 612,000 loans secured by 1-4 family residential properties-- some $60 billion in foreclosed residential loans;
  - -- at year-end held another 2.2 million 1-4 family loans that were 30 or more days past due-- approximately $220 billion in delinquent loans.

- At year end 1992, federally insured commercial banks and savings institutions:

  -- held $31.9 billion in 1-4 family residential loans that were 30 or more days past due, including $13.3 billion in loans that were in nonaccrual status. Most of these $13.3 billion nonaccrual loans will be foreclosed in 1993, resulting in substantial losses;

  -- held, as Real Estate Owned (REO) $6.9 billion in defaulted 1-4 family residential properties and reported net charge-offs of $2.2 billion on loans secured by 1-4 family properties.

- During FY 1992, the Federal Housing Administration and the Department of Veterans Affairs paid private sector mortgage lenders $5.3 billion to cover defaults on insured and guaranteed 1-4 family residential housing loans.

- In 1989, the private residential mortgage insurance industry paid claims for defaults totaling $873 million. Of the 57,000 claims paid, the majority of losses occurred on properties of $100,000 or less. The industry has advised the bank regulatory agencies that "the magnitude of financial loss and risk associated with fraudulent or incompetent appraisals has been underestimated."

- Fannie Mae's quality control program for 1992 found that approximately 13% of purchased mortgage loans with underwriting deficiencies had identifiable appraisal/value problems.

- During 1992, U.S. bankruptcy courts reported 971,517 filings for bankruptcy. In many of these bankruptcies, residential or commercial real property had been used to collateralize a consumer or business loan. It is estimated that the chances of an individual or a couple filing for chapter 13 bankruptcy during their lifetime is about one in 10.

- As of March 30, 1993, the Small Business Administration guaranteed or held $17.3

> billion in small business loans, of which $1.38 billion (8%) were in liquidation. Another $321.2 million in loans were 61 days or more delinquent, and some $295.3 million were 31 to 60 days past due. Loans guaranteed by the SBA represent only a very small portion of the total small business loans made by federally insured financial institutions. Although no data are available on small business loan delinquencies and losses for federally insured institutions, they appear to be substantial. In surveys conducted by the Federal Reserve, bank loan officers regularly characterize such loans as "high-yield, high-risk" loans.

B. Most Smaller Banks & Federally Insured Thrifts Have Their Largest Concentration Of Loans In Categories That Will Be Exempt From Title XI Appraisal Reform Requirements

The safety and soundness concerns raised by the Administration's proposal are heightened by the fact that the institutions primarily affected by the plan-- thrifts and small banks (which constitute 94 percent of all commercial banks)-- have their assets highly concentrated in the types of loans that would be exempt from Title XI professional appraisal requirements. The Clinton plan would allow these institutions to fill their balance sheets with "no doc/low doc" loans for which underwriting is of uncertain quality. This would pose great risk to the banking system and to other federal programs which guaranty private sector loans collateralized by real estate.

The exposure of thrifts to poorly underwritten loans will be especially great:

- At the end of 1992, savings and loan associations and savings banks held $469.7 billion in loans secured by 1-4 family residential properties. This represents 76 percent of alls their outstanding loans

secured by real estate and 45 percent of their total assets. The vast majority of these loans would be exempt from Title XI under the bank regulators' proposal to exempt loans of less than $250,000.

- During 1992, savings and loan associations originated $215 billion in 1-4 family loans. Again, almost all of these transaction would be exempt from Title XI.

- Additional billions of dollars in savings institution transactions will be exempted from Title XI by other proposals regarding small- and medium-size business loans, and other types of loans.

Commercial banks, especially those with assets of $1 billion or less, also would be exposed to substantial risk:

- At the end of 1992, commercial banks held $463.4 billion in loans secured by 1-4 family residential properties. Almost all of these loans will fall within the proposed exemption for real estate loans of $250,000 or less. These exempted loans constitute 53 percent of the real estate loans made by commercial banks and 13 percent of their total assets.

- The great majority of business loans made by commercial banks with total assets of $1 billion or less (94 percent of all commercial banks) are likely to be exempt from Title XI under the Clinton proposal, further adding to the balance of loans for which no professional appraisal will be required.

- Other elements of the proposed plan would exempt additional billions of dollars in commercial bank transactions from Title XI.

III. DELINQUENCIES AND LOSSES ON LOAN TRANSACTIONS AFFECTED BY THE PROPOSED PLAN ARE SUBSTANTIAL

The data on loan losses and delinquencies show that the types of loans affected by the Clinton plan are responsible for substantial yearly losses by financial institutions. Subsection "A" below examines delinquencies and losses on 1-4 family residential loans held by federally insured commercial banks and savings institutions. Subsection "A" also considers delinquencies and losses on residential loans held by institutions that are not federally insured and by the Federal Housing and Veterans Administrations. Subsection "B" looks at losses incurred on loans guaranteed by the Small Business Administration. Although SBA loans are not directly affected by the proposed plan, they provide a useful case study of the risk associated with business loans of less than $1 million. Finally, subsection "C" looks at annual bankruptcy filings by businesses and consumers as an indirect measure real estate lending risk.

A. Loans secured by residential properties

1. Commercial banks and savings institutions

At the end of 1992, commercial banks and savings institutions held approximately $32 billion in 1-4 family loans that were 30 days or more past due or in nonaccrual status. Savings institutions are especially at risk, since they are carrying disproportionately high amounts of delinquent mortgage loans, including 1-4 family residential loans. At the end of 1992,

thrifts held $18.4 billion in 1-4 family loans that were 30 days or more past due or in nonaccrual status. This figure represents 44 percent of all delinquent loans carried by thrifts and is, by far, their largest single category of delinquent loans. Of the $18.4 billion 1-4 family loans that were delinquent, $9.0 billion (almost half) were in nonaccrual status.

Together, commercial banks and savings institutions held $13.3 billion in nonaccrual 1-4 family loans at year-end 1992. Most of these nonaccrual loans will be foreclosed in 1993, resulting in substantial losses. Table 1 on page 9 below illustrates the full extent of 1-4 family loan delinquencies at commercial banks and savings institutions at the end of 1992.

Not surprisingly, commercial banks and savings institutions are suffering large annual losses on loans secured by real estate, including 1-4 family residential loans. Between 1990 and 1992, commercial banks and savings institutions together reported $3.9 billion in net charge-offs on 1-4 family loans.

In 1992 alone, savings institutions reported annual charge-offs of $1.2 billion on 1-4 family residential loans. Charge-offs on 1-4 family loans comprised 40 percent of all charge-offs on mortgage loans by savings institutions in 1992.

Table 1

Federally Insured Commercial Banks and Savings Institutions--
Loans Secured by 1-4 Family Residential Properties
Past Due or in Nonaccrual Status
as of December 31, 1992[2]

(in millions of $)

Loans secured by 1-4 family residential properties	Commercial banks	Savings institutions	TOTAL
Total outstanding 1-4 family loans	463,433	469,677	933,110
Loans past due 30-89 days	7,297	8,559	15,920
Loans past due 90 or more days	1,776	881	2,657
Loans in nonaccrual status	4,294	9,006	13,300
TOTAL LOANS PAST DUE OR IN NONACCRUAL STATUS	13,367	18,446	31,877

[2]Source: FDIC Division of Research. "Commercial banks" includes FDIC-insured commercial banks and nondeposit trust companies, but does not cover loans held by commercial bank trust departments. "Savings institutions" includes FDIC-insured saving banks and savings and loan associations.

Commercial banks also report substantial losses on loans secured by 1-4 family residential properties. In 1992, the balance sheets of commercial banks showed annual net charge-offs of $8.77 billion for all real estate loans, including charge-offs of $1.0 billion for 1-4 family loans. Table 2 below shows annual net charge-offs on 1-4 family loans for banks and thrifts in 1991 and 1992.

Table 2

Federally Insured Commercial Banks and Savings Institutions-- Net Annual Charge-Offs on Loans Secured by 1-4 Family Residential Properties for 1991 and 1992[3]

(in millions of $)

Loans secured by 1-4 family residential properties	Commercial banks	Savings institutions	TOTAL
Net annual charge-offs 1991	791	887	1,678
Net annual charge-offs 1992	1,012	1,178	2,190

[3]Sources: FDIC Statistics on Banking 1992; FDIC Division of Research. "Commercial banks" includes FDIC-insured commercial banks and nondeposit trust companies, but does not cover loans held by commercial bank trust departments. "Savings institutions" includes FDIC-insured saving banks and savings and loan associations.

2. **Life insurance companies**

Although residential loans held by life insurance companies are not affected by the Administration's proposals, losses on these loans are representative of those for all loans secured by residential properties.

Life insurance companies surveyed for the American Council on Life Insurance Quarterly Survey of Mortgage Loan Delinquencies and Foreclosures reported that at year-end 1992, they held a total of $208.4 billion in real estate loans (231,007 loans). Of these, $6.7 billion were 1-4 family loans (165,624 loans). The companies surveyed account for 85 percent of the total mortgages held by U.S. life insurance companies.

In 1992, life insurance companies responding to the Quarterly Survey foreclosed on 1,453 real estate loans-- approximately $6.82 billion in foreclosures. In 1992, surveyed life insurance companies foreclosed on 332 1-4 family residential loans, representing $37.1 million in foreclosed loans. At year-end of 1992, surveyed companies owned another 4,481 loans secured by 1-4 family properties that were two or more payments past due-- some $200.5 million in delinquent loans. Table 3 on page 12 provides more detailed information on delinquencies and foreclosures. Table 4 on page 13 shows delinquency and foreclosure rates for the real estate loans held by surveyed life insurance companies in 1992.

Table 3

Mortgage Loan Delinquency and Foreclosure Experience of Surveyed Life Insurance Companies as of December 31, 1992[4]

(in millions of $)

Property type	Loans outstanding	Loans two or more payments past due	Loans in process of fore-closure	Loans foreclosed since January 1
Total real estate loans	208,401	6,928	6,355	6,813
1-4 family	6,685	142	58	37
Commercial	193,402	6,701	6,105	6,628
Agriculture	8,313	85	192	148

[4]Source: American Council of Life Insurance, Quarterly Survey of Mortgage Loan Delinquencies and Foreclosures (December 31, 1992). The companies surveyed account for 85% of mortgages held by U.S. life insurance companies. Loans reported as "delinquent" include all loans that are two or more payments past due.

Table 4

Surveyed Life Insurance Companies
Mortgage Loan Delinquencies-- Percentage Rates by Dollar Amount[5]

Delinquent loans (including loans in process of foreclosure)

End of month	1-4 Family	Commercial	Agri-cultural	Total Mortgages
1992 March	2.30%	6.42%	5.47%	6.23%
June	2.50	7.53	5.48	7.27
Sept.	2.61	7.37	4.89	7.12
Dec.	3.00	6.62	3.33	6.37

Loans in process of foreclosure

End of month	1-4 Family	Commercial	Agri-cultural	Total Mortgages
1992 March	0.71%	3.20%	2.71%	3.08%
June	0.75	3.50	3.11	3.39
Sept.	0.77	3.27	2.84	3.16
Dec.	0.86	3.16	2.32	3.05

[5]Source: American Council of Life Insurance Quarterly Survey of Mortgage Loan Delinquencies and Foreclosures (December 31, 1992). The companies surveyed account for 85% of mortgages held by U.S. life insurance companies.

3. **Federal Housing Administration and Department of Veterans Affairs**

Residential loans insured or guaranteed by Federal Housing Administration (FHA), Farmers Home Administration (FmHA) and Department of Veterans Affairs (VA) also are not directly affected by the Administration's proposals. Although these loans are slightly riskier than commercial loans, they illustrate the vulnerability of private sector loans for which Title XI appraisals may not be required under the banking agencies' proposal.

Ninety-two percent of the single family loans insured by FHA are insured through FHA's Mutual Mortgage Insurance Fund (MMI). FHA currently insures $301 billion in single family housing mortgages through the MMI. Defaults on FHA insured single family loans have been substantial. During fiscal year 1992, FHA paid out $4.8 billion to settle claims filed by lenders on defaulted single family loans insured under the MMI.

In most cases, a claim settlement results in assignment to FHA of the property securing the loan. At the end of fiscal year 1992, FHA owned $2.2 billion in foreclosed single family properties obtained in claim settlements. During FY 1992, FHA realized $1.4 billion in losses on the sale of foreclosed single family properties.

Under some circumstances, settlement of a claim results in FHA taking assignment of the defaulted mortgage, instead of acquiring title to the property securing the loan. At the end of FY 1992, FHA owned $2.0 billion in nonperforming single family mortgage

notes received in claims settlements; and an additional $1.2 billion in notes on single family mortgages under forbearance agreements. Table 5 below details FHA's single family loan operations and cash flows for fiscal years 1992 and 1991.

Table 5

Federal Housing Administration
Insured Single Family Loan Operations and Cash Flows
For the Years Ended September 30, 1992 and 1991[6]

(in millions of $)

Single family mortgages	1992	1991
Insurance in force	301,729	301,574
Claims settlement payments	4,831	4,434
Foreclosed properties held for sale	2,221	2,252
Realized losses on disposal of foreclosed properties	1,427	1,428
Mortgage notes receivable	3,341	2,585

[6]Source: Office of the Inspector General, Department of Housing and Urban Development, Federal Housing Administration Audit of Fiscal Year 1992 Financial Statements (Report No. 93-FO-131-0003) (April 30, 1993).

Direct and guaranteed residential loans backed by the VA also show high rates of default. The VA currently carries $11.3 billion and $174.8 billion respectively in direct and guaranteed single family housing loans on its balance sheet. During FY 1992, the VA paid out $446.5 million to cover 32,159 claims made against defaulted single family loans guaranteed by the agency. At the end of FY 1992, VA financial statements showed an additional 109,135 pending claims on defaulted guaranteed single family loans. At an average payout of $13,833 per claim, these unresolved claims represent a liability of $1.5 billion.[7]

4. Foreclosures and delinquent loans reported by mortgage bankers and financial institutions

Foreclosure rates reported by the Mortgage Bankers Association National Delinquency Survey show that during calendar year 1992, mortgage bankers, commercial banks, savings and loans, and savings banks participating in the survey foreclosed on approximately 212,000 1-4 family residential loans. The MBA survey covers only one-third of all 1-4 family loans nationwide. Thus the total number of 1-4 family loans on which financial institutions foreclosed nationwide in 1992 is likely to be in the neighborhood of 600,000 loans. Annual foreclosures reported by the MBA National Delinquency Surveys for 1991 and 1990 indicate that in each of those years financial institutions nationwide foreclosed on roughly 600,000 1-4 family loans. Considering that the average home price

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[7] Sources: Veterans Administration Program Analyses Staff; Veterans Administration Fiscal Year 1994 Budget Request.

in the United States is approximately $100,000, these foreclosures represent approximately $60 billion annually in foreclosed 1-4 family loans.

Data reported in the National Delinquency Survey also shows that at as of December 31, 1992, the institutions surveyed owned approximately 741,000 1-4 family residential loans that were 30 or more days past due. Only one-third of all mortgage lenders are represented in the survey. Extrapolating for a nationwide figure, this suggests that financial institutions held on the order of 2.2 million delinquent 1-4 family residential loans at the end of 1992.

B. **Small Business Loans**

As of March 30, 1993, the Small Business Administration guaranteed or held $17.3 billion in small business loans. Of these loans, $1.38 billion (8%) were in liquidation. Another $321.2 million were 61 days or more delinquent, and some $295.3 million were 31 to 60 days past due.

At the end of 1991, the SBA guaranteed or owned an outstanding $10.3 billion in what are called "General Business Loans." The General Business Loan Program is the agency's largest loan program.[8] The SBA charged-off $325.3 million in General Business

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[8]The General Business Program, administered under section 7(a) of the Small Business Act, accounts for approximately three-quarters of all SBA loan disbursements. General Business Loans are almost always guaranty loans. To be eligible for the program, a firm must be for-profit, independently owned, and not dominant in its field. Loans are available for many business purposes, including real estate financing, expansion, equipment purchases, working capital, or inventory. The SBA guarantees 90% of loans up to $155,000 against loss due to borrower default. On larger loans,

Loans during FY 1991. Table 6 on page 18 below shows annual charge-offs for SBA General Business loans for FY's 1988, 1989, 1990, and 1991.

Table 6

Small Business Administration
General Business Loans Charged-Off[9]

Fiscal Year	No. of Loans	Amount Charged-Off
1988	4,864	$454,720,577
1989	4,117	409,031,791
1990	3,838	389.776,661
1991	3,192	325,291,748

The SBA reported cumulative actual losses for General Business Loans of $3.89 billion at the end of FY 1991.[10] "Actual losses" refers to all losses suffered on General Business Loans since the inception of the General Business Program. The SBA estimates that the actual ultimate losses on General Business loans disbursed as of the end of FY 1991 will run to $5.72 billion.[11] The SBA calculates the actual loss rate on all General Business Loans disbursed since the inception of the program to be 8.82 percent as of September 31, 1991.[12] It is projected that the actual ultimate

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the SBA usually guarantees 85%, up to a maximum guarantee of $750,000.

[9]Source: SBA Annual Loss Study FY 1991, at p. 35 (table).

[10]SBA Annual Loss Study FY 1991, at p. 16 (table).

[11]Id.

[12]Id.

loss rate on General Business Loans disbursed through FY 1991 will be 12.97 percent.[13]

C. <u>Annual Bankruptcy Filings by Consumers and Businesses</u>

Bankruptcy filings are an indirect but telling measure of lending risk. During 1992, U.S. bankruptcy courts reported 971,517 filings for bankruptcy. The vast majority of these filings (900,874) were consumer debt cases. It can be expected that many consumer bankruptcies involved mortgaged residential properties. The remaining filings (70,643) involved debt classified primarily as business debt. Again, it can be expected that many of these bankrupt businesses and their owners held mortgaged real property. Based on 1992 filing levels, the Administrative Office of the United States Courts estimates that the chances of an individual or couple filing for chapter 13 bankruptcy during their lifetime is about one in 10. Chapter 13 filings constituted just 27 percent of the total bankruptcy filings in 1992. Table 7 on page 20 below shows total bankruptcy filings for the years 1985 through 1992.

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[13]The "actual" loss rate for SBA General Business Loans is calculated on a cumulative historical basis-- it represents cumulative charge-offs less recoveries divided by the cumulative total of disbursements made since the inception of the program. The private sector calculates loss rates differently. The "commercial" loss rate used by private institutions is calculated by dividing the current year's losses by the average outstanding loan portfolio for that year. In 1990, The commercial loss rate on SBA General Business Loans was 2.81 percent. In 1991, the commercial loss rate for General Business Loans was 2.17 percent. <u>Id.</u>

Table 7

Total Bankruptcy Filings, Business Cases and Consumers Cases for Calendar Years 1990-1992[14]

Calendar year	Total filings	Business cases	Consumer cases
1990	782,960	64,853	718,107
1991	943,987	71,549	872,438
1992	971,517	70,643	900,874

IV. FEDERALLY INSURED FINANCIAL INSTITUTION ASSETS ARE HIGHLY CONCENTRATED IN THE TYPES OF LOANS THAT WOULD BE EXEMPTED FROM TITLE XI APPRAISAL PROTECTIONS

This memorandum examines only 1-4 family residential loans primarily affected by the Administration's proposal to raise the threshold level for Title XI appraisals from $100,00 to $250,000; and, to some extent, business loans for less than $1 million dollars, which the Administration proposes to exempt from Title XI where the sale of, or rental income derived from, the real estate taken as collateral is not the primary source of repayment. These are the only two elements of the proposed plan for which data are available. However, it should be kept in mind that other portions of the proposed plan, most notably the proposal to expand the "abundance of caution" exemption, are likely to affect many additional billions of dollars in transactions.

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[14]Source: Administrative Office of the United States Courts.

A. **Loans secured by residential properties**

For many institutions, Title XI no longer will apply to the vast majority of loans secured by real estate. This is especially true for thrifts, whose assets are highly concentrated in loans secured by 1-4 family residential properties.

According to the Administration, the proposal to raise the threshold level for Title XI appraisals to $250,000 primarily will affect loans secured by 1-4 family residential properties. The National Association of Realtors reports that 85 percent of all 1-4 family residential loans are valued at $250,000 or less. An even higher percentage of 1-4 family loans made by thrifts are valued at $250,000 or less since most thrifts do not engage in high value residential lending.

In 1992 alone, savings and loan associations originated $215 billion in loans secured by 1-4 family residential properties. Almost all of these transactions would fall within the proposed $250,000 threshold and be exempt from Title XI. Many more hundreds of billions of dollars in 1-4 family loans are originated by commercial banks and savings banks each year, the vast majority of which would be exempt from Title XI under the proposed $250,000 threshold.

Loans secured by 1-4 family properties constitute a large and increasing portion of the real estate loans and total assets of federally insured institutions, especially thrifts. At the end of 1992, FDIC-insured savings institutions held $469.7 billion in 1-4 family loans, representing 76 percent of their total outstanding

real estate loans and 45 percent of total assets. FDIC-insured commercial banks held $463.4 in loans secured by 1-4 family properties -- some 53 percent of their total outstanding real estate loans and 13 percent of total assets. Raising the threshold level for Title XI appraisals to $250,000 will mean, over time, that for many banks and thrifts almost none of these assets will be underwritten with the help of a professional appraisal.

Table 8 on page 23 below shows the total assets of federally insured commercial banks and savings institutions and provides a breakout of total real estate loans outstanding at these institutions as of December 31, 1992.

Table 8

Total Assets and Real Estate Loans Outstanding of Federally Insured Commercial Banks and Savings Institutions as of December 31, 1992[15]

(in millions of $)

	Commercial banks	Savings institutions	TOTAL
Total assets	$3,505,961	$1,035,194	$4,541,155
All real estate loans	846,968	619,064	1,466,032
1-4 family	463,433	469,677	933,110
Multifamily	27,202	67,451	94,653
Commercial	336,398	81,899	418,297
Farm	19,935	37	19,972

B. **Business loans of less than $1 million**

The proposed exemption for business loans of less than $1 million will add substantially to the amount of loans exempt from Title XI appraisal requirement, especially on the balance sheets of small-and medium-sized commercial banks. Ninety-four percent of commercial banks and 91 percent of savings institutions have assets of $1 billion or less and can be characterized as small- or medium-

[15]Sources: Federal Reserve Bulletin, Table 1.54 Mortgage Debt Outstanding, p. A37 (May 1993); FDIC Statistics on Banking 1992, Table RC-18 Assets and Liabilities of FDIC-Insured Savings Institutions. "Commercial banks" include FDIC-insured commercial banks and nondeposit trust companies, but does not cover loans held by commercial bank trust departments. "Savings institutions" include FDIC-insured saving banks and savings and loan associations.

sized. There is no data available from which one could calculate precisely what portion of the business loans of small and medium sized institutions would be exempt from Title XI under the banking agencies' proposed plan. However, according to the Small Business Administration, the vast majority of business loans made by these institutions are for less than $1 million. The Federal Reserve reports that most of these business loans are secured by real estate. Thus under the Administration's proposal, it is highly likely that Title XI appraisals no longer will be required for the majority of business loans made by 94 percent of commercial banks and 91 percent of thrifts.

ATTACHMENT 2

MEMORANDUM

TO: Subcommittee on General Oversight, Investigations & Resolution of Failed Financial Institutions; Committee on Banking, Finance & Urban Affairs.

FROM: Council of Appraisal & Property Professional Societies.

SUBJECT: Recent Fair Lending Investigations and Initiatives.

DATE: February 28, 1994

This memorandum summarizes some of the most significant fair lending investigations and initiatives undertaken recently by the Clinton Administration, the Congress, the States, community groups and the mortgage lending industry.

(1) RECENT INVESTIGATIONS AND STUDIES OF DISCRIMINATION IN MORTGAGE LENDING.

A number of recent studies and investigations have shown that racial bias is still a prevalent and persistent problem in the mortgage lending industry.

- Under a recent settlement with the U.S. Department of Justice, Shawmut Mortgage Co., one of the largest home lenders in New England, agreed to pay at least $10,000 apiece to about 100 would-be minority home buyers whose mortgage applications were rejected because of racial bias. The federal investigation of Shawmut grew out of A 1992 study of Boston area lenders conducted by the Federal Reserve Bank of Boston, which showed that African Americans and Hispanics were 56% more likely to be denied a residential mortgage loan than whites, even after adjustments were made for differences in the credit histories of loan applicants.

- The Boston Reserve study also prompted an investigation by the Massachusetts Attorney General of some three dozen Massachusetts banks for alleged lending discrimination. An agreement was recently reached to end that investigation. The agreement calls for an independent review of about 140 mortgage applications denied in 1990, with awards of $15,000 or a new loan for an applicant found to have been discriminated against. The agreement also calls for the Massachusetts banking industry to create programs to prevent systematic bias against minority home buyers, including special reviews of denied loan applications as well as educational and outreach efforts.

- The U.S. Department of Justice 1991-92 investigation of Decatur Federal Savings and Loan Association revealed an extensive pattern and practice of discrimination by Decatur against prospective African American home buyers. Among other things, the Department's settlement with Decatur required the savings and loan to appoint a review appraiser with experience appraising properties in African American neighborhoods whose duty it is to re-examine all appraisals that do not support the loan requested to ensure that the appraisal does not discriminate against the applicant by undervaluing the property offered as collateral.

- Data recently made available through the Home Mortgage Disclosure Act (HMDA) confirm that after controlling for income differences, African American and Hispanic applicants for conventional home loans in all income groupings have consistently higher rates of denial than white applicants. In fact, the data show that the denial rate for African Americans in the <u>highest</u> income category is the same as the rate for whites in the <u>lowest</u> category. When differences in income are ignored, the rate of denial for African Americans and Hispanics is two times greater than it is for whites.

- Last June the *Washington Post* published a series of articles documenting pervasive lending discrimination against minority communities by banks and savings & loans in the Washington area. The *Post's* investigation of racial bias included a computer-assisted study of Washington-area lending patterns, which revealed that Washington banks and savings & loans provide mortgages to white neighborhoods at twice the rate they do to African American neighborhoods with the same income and housing characteristics.

- A study released last October by ACORN, the Association of Community Organizations for Reform Now, showed that nationwide mortgage rejection rates at major banks and mortgage finance companies are, on average, 2.7 times higher for African Americans and Hispanics than they are for whites.

(2) FEDERAL AND STATE INITIATIVES AGAINST MORTGAGE LENDING DISCRIMINATION.

A wide range of initiatives have recently been undertaken at both the federal and state level to combat racial bias in mortgage lending, including discriminatory appraisal practices.

- In 1991, Congress passed legislation requiring mortgage

lenders to make available to residential mortgage applicants the appraisal report used to review their loan application. By requiring disclosure of the appraisal report, Congress hoped that minority borrowers would be better able to spot discriminatory appraisal practices and take action against them. In December 1993, the Federal Reserve issued final regulations implementing the 1991 law.

Last May, the Clinton Administration announced plans to impose a broad new crackdown on financial institutions to ferret out racial discrimination in mortgage lending.

- U.S. Attorney General Janet Reno has announced that ending racial bias in lending is a top priority for the Justice Department. The Department is now investigating discriminatory lending practices on the part of a number of financial institutions. In February 1993, Justice announced that it had identified 200 banks it suspected of possible racial bias in mortgage lending. The Department asked the bank regulatory agencies to pinpoint 25 to 30 of these institutions for further investigation. Testifying before the Senate Banking Committee in November, Attorney General Janet Reno reported that, as of that time, only the Comptroller of the Currency had complied with that request.

- In November, Attorney General Janet Reno and Housing Secretary Henry Cisneros announced that the Administration is expanding its initiative against lending discrimination to include mortgage companies that are not supervised by federal banking regulators.

- On November 15, the Federal Reserve announced that it had decided to decline approval of Shawmut National Corp's acquisition of the New Dartmouth Bank because of concern about Shawmut's compliance with fair lending laws.

- Addressing the Mortgage Bankers Association convention in Chicago in October, HUD Secretary Henry Cisneros described mortgage lending discrimination as America's "Achilles heel". Cisneros challenged home mortgage lenders to end discrimination in their industry.

The Federal bank regulatory agencies have undertaken a number of initiatives to improve enforcement of fair lending laws.

- In December, the bank regulators issued proposed rules to improve lender compliance with the Community Reinvestment Act (CRA).

- Within the last year, both OCC and FDIC have issued new

fair lending examination procedures based on the principle of comparative file analysis. The exam procedures also seek to educate examiners about discriminatory practices, including discriminatory appraisal practices. OCC and FDIC examiners are now using the new exam procedures to determine whether banks are giving equal treatment to minority and non-minority applicants. The Federal Reserve and OTS also use comparative analysis in their fair lending examination procedures.

- The bank regulatory agencies also are now using statistical models employing HMDA data and other information to assist examiners in detecting discrimination.

- OCC is developing a testing program under which similarly situated minority and non-minority loan applicants will be sent to banks to test for disparate treatment.

- The Consumer Compliance Task Force of the Federal Financial Institutions Examination Council (FFIEC) has a number of projects underway to address fair lending. For example, through the Task Force's work, the FDIC in November distributed to its field offices 1990 and 1991 HMDA data tables on CD-ROM disk to assist with pre-examination HMDA analysis.

Fair lending initiatives at the state level also are having an effect on mortgage lending practices

- As noted above, the Massachusetts banking industry recently reached an agreement with that state's attorney general to compensate minority mortgage applicants who were unfairly denied loans in 1991 and to establish certain programs to combat racial bias, including independent review of denied loans, and education and outreach programs.

- In November, the State of Illinois filed discrimination charges against the Beverly Bank, charging that the bank is denying the mortgage-loan applications of African Americans at a disproportionately higher rate than those received from whites.

(3) CONGRESSIONAL HEARINGS ON FAIR LENDING.

- Just recently, this Subcommittee held a series of hearings examining the Administration's proposed new regulations implementing the Community Reinvestment Act. Those hearings documented the banking industry's

longstanding hostility to the CRA and failure to live up to the responsibilities that the CRA places upon it.

- Representative Kennedy's Subcommittee also recently heard from witnesses on the proposed CRA regulations.

- In November, the Senate Banking Committee held a hearing to discuss fair lending enforcement in the context of data made available by the Home Mortgage Disclosure Act. As note above, the HMDA data show that discrimination in mortgage lending is still a pervasive problem.

- On September 24, 1993, the House Banking Committee held a field hearing in Prince Georges County on discrimination in bank services, including mortgage lending. The Committee heard from a variety of bank regulators, bankers and community groups. The Committee also heard testimony from P.G County resident Calvin Hicks, an African American and single parent of two who earns $46,000 a year as a special police officer for Fannie Mae, but who cannot obtain a mortgage.

- In early February of 1993, the Senate Banking Committee heard from federal regulators on the issue of redlining and federal efforts to combat discriminatory lending.

(4) MORTGAGE LENDER INITIATIVES AGAINST DISCRIMINATION.

- In October, the Mortgage Bankers Association of America announced that it is initiating programs to increase minority employment among its members and train mortgage bankers to assist minority home buyers.

- The Fleet Financial Group recently unveiled an $8 billion loan program for low- and moderate-income borrowers, which will make it easier for minorities to obtain loans. In December, Fleet agreed to pay up to $155 million to settle allegation of exploiting minority borrowers in Georgia with excessive fees and rates.

- In July 1993, NationsBank and the National Urban League announced that they would be forming committees in 18 major cities nationwide to review applications of bank customers who feel they were wrongly denied a mortgage or home improvement loan.

- In March 1993, the nation's eight mortgage insurers announced that they have decided to start making voluntary disclosure of race, income level and other borrower data that is vital to determining how loan discrimination occurs and how it can be better prevented.

(5) FAIR LENDING MEASURES BY FANNIE MAE AND FREDDIE MAC

- The Federal Home Loan Mortgage Corp. (Freddie Mac) recently issued revised lending guidelines which will make it more difficult for lenders to use overly restrictive interpretations of its underwriting standards, including appraisal standards, to justify discriminatory lending practices. The Federal National Mortgage Association (Fannie Mae) has made similar revisions to its lending guidelines over the last three years.

STATE OF NEW YORK
STATE BOARD OF REAL ESTATE APPRAISAL
84 Holland Avenue
Albany, New York 12208-3490

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TESTIMONY OF DOMINICK S. POMPEO
PRESENTED TO
THE SUBCOMMITTEE ON GENERAL OVERSIGHT, INVESTIGATIONS
AND THE RESOLUTION OF FAILED FINANCIAL INSTITUTIONS
OF THE HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

Before I begin, I would like to thank Chairman Flake, as well as the other members of the Subcommittee, for the opportunity to speak here today. I come at the issues before you from a number of perspectives. As Chairman of the New York State Real Estate Appraisal Regulatory Board, I lead the body charged with overseeing the competence and ethics of appraisers through licensing and certification. As a professional fee appraiser with over fourteen years of experience, I earn my living through professional appraisal practice. Like many Americans, as a homebuyer and seller, I have relied on the accuracy of appraisal in making important financial decisions. Finally, as a taxpayer and citizen I am vitally interested in the safety and soundness of our nation's financial institutions.

All of these interests are at stake in the issues before you today and all of these perspectives lead me to the same conclusion: The proposed exemptions to Title XI of Firrea's appraisal requirements including the dramatic increase in the so called de minimis threshold, invite a repetition, possibly of even greater proportions, of the hundred plus billion dollar taxpayer debacle and bailout for which we will be paying over decades to come.

I imagine that, given present day concerns, it is easy to brush aside the memories of the S&L crisis that cause consumer outrage towards appraisers and savings and loan institutions-- and justifiably so-- for the devastating losses to the Federal Deposit Insurance Funds, private sector lenders, private mortgage insurers, and investors in mortgage-backed securities. These losses totalled billions of dollars. Self dealing and corruption were rampant. Gross overvaluation of collateral rendered many loans perilously unsafe, while, simultaneously sound loans were capriciously denied to redlined minority areas. Ultimately, fraudulent and faulty appraisals were determined to be responsible for more than half of the S&L failures.

Given the clear vision of hindsight, the potential for abuse in an unregulated appraisal industry is not surprising. After all,

the real estate appraisal industry resembled most closely a cottage industry. Appraisals "as instructed" were the norm. There were no requirements for objective and adequate documentation of the appraisals, nor any institutional oversight except for the sincere but inadequate efforts of a handful of national appraisal organizations. The lack of a certification process resulted in an industry with a broad spectrum of appraisals ranging from excellent to utterly inadequate.

In the wake of the S&L disaster (crisis no longer carries the force it once did), the unquestionable need for regulation was clear. Hence the construction and implementation of Title XI of Firrea, with its protections for nearly all real estate transactions. Then the De minimis controversy began. Little by little, year after year, the financial institutions' lobby has pressured the banking regulators to raise the De minimis threshold, exempting millions, yes millions, of transactions form the basic common sense requirements that appraisals be conducted according to uniform standards by individuals with demonstrated qualifications, whose conduct is subject to oversight and discipline.

I would like to pause for a moment and ask you to reflect with me on the use of the term "de minimis". Originally, the regulators proposed a de minimis exemption of $15,000. One could, I think, fairly argue that $15,000 is de minimis in the context of the real estate transactions. Then they raised it to $50,000 which in many parts of the country is surely not de minimis. Then they settled for a while on $100,000 which is roughly the average price of all homes in the United States. Now they are proposing a de minimis exemption of $250,000 -- which equates to over 90% of all residential real estate transactions and millions of commercial loans. Mr. Chairman, there are many adjectives one could use to describe the proposed exemption, but surely the term, de minimis, is not one of them. Just how ignorant do they think we are?

The arguments used to promote ever greater threshold increases and other exemptions are without any basis in fact. Presently, New York has approximately 3,400 appraisers. One of the most frequent arguments designed to loosen Title XI regulations is that the regulations have caused, and will continue to cause, a shortage of appraisers. No county in New York has reported a shortage, despite the fact that the past two to three years have been the heaviest refinancing period in two decades.

Becoming licensed in New York is not an unreasonable burden. The pass rates on the licensing examination have routinely been over 77% for the General Appraisers category and 69% for the Residential Appraiser category. The course requirements are frankly minimal, requiring actual time of two to four weeks for an appraisers who has taken no courses previously. The experience requirements are not required to be met for entry levels positions

into the field. In short, there is no barrier to entry to becoming a licensed appraiser in the state of New York for any appraiser who is minimally qualified and minimally motivated.

Another frequently cited complaint is the claim of time delays and their coincident inefficiencies. The lenders blame time delays on the appraisers, but if we consider that most lenders make a practice of reporting the time that passes between the application to the time the loan goes through, the reporting of time delays is placed in perspective.

It is also argued that Title XI has resulted in increased costs to the home buyer. The evidence strongly suggests that this is not true. A New York State survey conducted between February 11th and February 16th 1994 to indicated that appraisal costs have by-and-large remained flat over the past several years. In addition, all of the costs associated with licensing and certification have been born by the appraisers themselves. It is possible, however, that, in spite of these facts, costs to home buyers have increased because when banks utilize in-house personnel for valuation services, the bank is free to charge the home buyer any price for the service. So while fees to appraisers have generally not increased, it may be that costs to home buyers have increased due to pricing policies of lenders.

The banking industry has been complaining about increased costs and delays in obtaining appraisals due to Title XI of FIRREA, almost from the moment Title XI passed in December of 1989; the fact is that title XI did not become fully effective until January 1993 and almost no states required licensing before 1992. I personally question the so-called data the banking industry proffered in support of arguments of increased costs and delays. But if there were problems with delays, they surely had nothing to do with Title XI. It seems far more likely that any such delays were the result of the extraordinarily high level of refinancing in resulting from dramatically lowered interest rates.

I would like to add at this point a comment about the value of independent professional appraisals which is often overlooked. In addition to helping to insure safety and soundness and to enforcement of federal and state laws including requirements under the Americans with Disabilities Act and various environmental laws. With a full appraisal, an appraiser who is properly educated about such laws carefully inspects the property and as a matter of course, points out concerns related to compliance with applicable laws.

In addition, New York State officially began the process of licensing and certifying real estate appraisers in January, 1991. Since that time, the enforcement unit of the Division of Licensing

Services has received approximately seventy (70) complaints of alleged violations of our appraisal law. Of this number, fifty-eight (58) complaints were lodged against residential appraisers for various infractions. These complaints include quite a number of serious charges for alleged violations of both the ethics and competency standards of USPAP.

Because of our licensing and certification program, we were able to assist many of our complainants in obtaining a satisfactory solution to their complaints.

It is important to note that we would not have been able to assist 80% of our residential complainants, had the deminimus level been raised to $250,000.

Finally, let us consider the proposed $250,000 de minimis threshold. It carries with it, first and foremost, the obvious fault that has characterized each de minimis increase; fictitious, uncertain valuation. If there must be exemptions from Title XI safeguards, the complexity of the property should be the standard, not a dollar amount. A $250,000 property in New York City may be minor property, while an $80,000 property in Lancaster, New York is likely more significant.

The immediate consequences of wider and wider exemptions is clear: In millions of residential commercial transactions, the evaluations of collateral will be undertaken by persons who are not subject to state supervision and discipline and will not be required to comply with uniform standards. The prospect of faulty and fraudulent appraisals will increase dramatically. Taxpayer backed deposit insurance funds will be increasingly at risk. Consumers will be cheated more often and unscrupulous lenders will conspire with equally unscrupulous non-appraisers to lenders to high ball or low ball to make the deal work or not work for whatever nefarious objective they are pursuing including more widespread redlining. Low income individuals, particularly those belonging to minority groups, were previously overwhelmingly shut out of the home purchasing process. The proposed exemptions would remove the consumer protections objective appraisals currently provide for all consumers but low and middle income and minority homebuyers and sellers, would, as usual, be particularly hard hit.

Finally, the state appraisal regulatory systems will be severally undermined, if not destroyed, by the exemptions. There will be an under class of unlicensed non-appraisers who will be free to be incompetent or dishonest without any realistic fear of retribution. As a practical matter, they will have nothing to lose. The number of licensed appraisers will surely decline if licensing is not required. The revenue base of the state boards, funded by application and testing fees will be depleted. The Boards will not be able to do an adequate job policing the smaller

number of licensed appraisers. The public will be confused and justifiably lose confidence in the ability of the Boards to supervise appraisers. All in all, you are looking at a chaotic situation.

The current $100,000 de minimis already places billions of dollars at risk. The Resolution Trust Corporation reports that $15.5 billion dollars in losses can be attributed to loans below $250,000. The new system would remove millions of transactions from Title XI supervision and will affect 90 percent of residential loans and hundreds and thousands of commercial loans exempted under $1,000,000, undermining the present administration's desire to generate small business development.

Quite obviously the objective of those who are working year after year to increase the de minimis threshold is to rid the various financial institutions of FIRREA protections. What message will Title XI eradication send to small business entrepreneurs and average consumers who have yet to regain faith in the appraisal industry and the Federal Deposit Insurance funds? Are we saying that Title XI implementation was an effort to make the general public believe that we would do all in our power not to allow history to repeat itself, but that it was only meant as a temporary pressure value? Do we now remove the valve because the eyes of America are turned elsewhere, allowing us to permit financial institutions and unregulated appraisers to lay down a potential mine field for the unwary and unsophisticated?

I am not trying to sensationalize this controversy. My goal is to place FIRREA in its proper perspective -- the framework of its inception. Please remember that it is this vantage point which created FIRREA, we cannot sent Title XI on its way because it has done its job so far. The job has just begun. The bottom line is that the bank regulators should, at a minimum, require the use of licensed or certified appraisers for all appraisals or evaluations whenever such evaluations of collateral are undertaken. To do less is to flirt with disaster -- like the great New York Yankee Yogi Berra used to say, "Its like deja vu all over again."

Thank you for your kind attention and I would be please to answer your questions.

Consumer Federation of America

STATEMENT OF CHRIS LEWIS
DIRECTOR OF BANKING AND HOUSING POLICY
CONSUMER FEDERATION OF AMERICA

ON

REAL ESTATE APPRAISAL STANDARDS

BEFORE THE
SUBCOMMITTEE ON GENERAL OVERSIGHT, INVESTIGATIONS,
AND THE RESOLUTION OF FAILED FINANCIAL INSTITUTIONS
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

HONORABLE FLOYD H. FLAKE
CHAIRMAN

MARCH 1, 1994

The Consumer Federation of America (CFA) appreciates the opportunity to testify today before the Subcommittee on the matter of real estate appraisal standards and proposed changes to Title XI requirements contained in the Financial Institutions, Reform, Recovery and Enforcement Act of 1989 (FIRREA).

CFA is the nation's largest consumer advocacy organization with over 240 national, state and local member organizations whose combined membership exceeds 50 million persons.

It is our hope that today's hearing will clear the air and set the record straight on the impact to consumers of proposed changes to FIRREA appraisal standards -- changes that are both sweeping in scope and detrimental in impact on the financial well-being of millions of consumers who expect fair treatment in real estate and credit markets.

We commend you, Mr. Chairman, for holding this hearing today and focusing the attention of the Congress on just exactly who stands to loose and who stands to gain by proposals to turn back the clock on the evaluation of real estate collateral booked and held by publicly insured financial institutions.

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TITLE XI CONSUMER BENEFIT

Consumers receive broad benefit from FIRREA's Title XI which requires real estate appraisals to be performed in writing, in accordance with uniform standards and by appraisers whose competency has been demonstrated and whose professional conduct will be subject to effective supervision.

Consumers benefit from FIRREA Title XI requirements in two principal ways: 1) as homebuyers and homeowners by the availability of accurate and professional assessments of residential real estate value; and, 2) as taxpayers by the assurance that sufficient collateral exists to support the loans of insured depository institutions and deposit insurance funds.

CFA believes that quality appraisals conducted by certified professionals are a critical component of modern real estate markets. Public confidence in the integrity of real estate and financial markets is dependent on them.

GENERAL COMMENTS ON PROPOSED JOINT AGENCY RULE

On June 4, 1993 the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System (FRS) and the Office of Thrift Supervision (OTS) issued a proposed rule to increase to $250,000 real estate transactions that would be exempt from Title XI appraisal standards and to make other injurious changes to appraisal industry reforms initiated by the Congress in FIRREA.

CFA finds no evidence to warrant the proposed roll-backs contained in the joint agency rule making. In fact, we find the proposal seriously flawed. And, we have fundamental questions about the advisability and need for the changes advocated in the proposal.

Most importantly the proposed amendments to the regulation implementing Title XI will obliterate the critical State enforcement of appraisal standards for more than 9 out of 10 residential real estate transactions. We believe that this evisceration of professional accountability in the evaluation of real estate collateral will:

(1) undermine the safety and soundness of publicly-supported depository institutions;

(2) damage consumer access to accurate appraisals necessary for the informed purchase or sale of real estate; and,

(3) undermine the delivery of mortgage credit on a non-discriminatory basis.

The relaxation of appraisals standards -- like other recent easing of bank regulations -- breaks a recent, but fundamental, commitment with the American people -- a commitment to reduce, not increase, risks to the deposit insurance funds. This commitment was implicit in both the FIRREA legislation and in the bank reform bill of 1991, the Federal Deposit Insurance Corporation Improvement Act (FDICIA).

By eviscerating the professional accountability standards of Title XI of FIRREA, the appraisal exemptions contained in the proposed rule making amount to little more than political sops to the banking industry. The exemptions, particularly the residential housing exemptions, have little -- if anything -- to do with increasing the availability of credit to legitimate borrowers.

CFA has conducted national surveys on appraisal costs and has found no correlation between industry certification and price. And, the Congress should remember, that it is the consumer who pays for the appraisal -- not the bank -- they just collect the fee.

This rule making -- should it remain unaltered -- is clearly heading in the wrong direction. It will result in less transparency in banking and real estate markets at the very time when financial markets are demanding greater and greater disclosure of information on asset value. It will usher in a new wave of unevaluated and unappraised baskets of collateral that will make it difficult -- if not impossible -- for examiners, boards of directors and financial analysts to properly and fully analyze and monitor conditions of insured institutions.

Taxpayers are still paying out billions of dollars for the high-risk 1980s games of inflated and fraudulent appraisals. With these mammoth bills still outstanding, it is unbelievable that new proposals would be on the table to relax key controls -- basic safeguards like full and proper evaluation of assets and collateral.

CFA believes in the principle that collateral should be accompanied by a proper appraisal. That principle should stand notwithstanding the bankers worn pleas for regulatory relief.

Had the President and the Congress stepped in during the 1980's and demanded regulatory enforcement and the maintenance of standards, billions of public dollars could have been saved. Now is not the time for relaxed standards and renewed deregulation.

Now, is the time for fundamental standards -- like evaluating the collateral behind a loan -- to be retained and kept strong.

SAFETY AND SOUNDNESS IMPACT

The joint banking agencies are proposing to increase the threshold level for requiring a Title XI appraisal from $100,000 to $250,000. This would remove approximately 94% of loans secured by 1-4 family residential properties from the prudent safeguards provided by Title XI requirements.

The proposal offers no empirical evidence to support claims that current Title XI appraisal requirements impede the flow of credit to businesses or consumers. And, by proposing to exempt literally millions of real estate transactions every year from Title XI requirements, the proposal flies in the face of available and significant evidence that undocumented and poorly conducted appraisals have materially contributed to the erosion of the safety and soundness of insured depositories and to the solvency of deposit insurance funds.

Loans secured by 1-4 family properties represent a significant proportion of assets of federally-insured institutions, particularly thrifts, but increasingly that of commercial banks. At the close of 1992, FDIC-insured savings institutions held $469.7 billion in 1-4 family loans, representing 76 percent of their total outstanding real estate loans. FDIC-insured commercial banks held $463.4 billion in loans secured by 1-4 family properties representing 53 percent of outstanding real estate loans.

Raising the *de minimis* threshold for Title XI appraisals to $250,000 will subject the vast majority of these assets to substandard and unprofessional appraisal standards and underwriting decision making, and will expose federal deposit insurance funds to inordinate risk associated with poorly collateralized real estate loans.

The agencies are proposing this change without empirical evidence that a raised *de minimis* level will not subject deposit insurance funds to additional exposure. The agencies admit as much when they state in their notice of proposed rule making that they "[do] not regularly collect data of loss by the size of loans". (See 58 Federal Register 31880.)

The proposal disregards available private market loan performance data and federal agency recommendations on appraisal standards. For example, the Mortgage Insurance Corporation of America has consistently reported that the private mortgage insurance industry has historically paid claims on high balance mortgages (those in excess of $200,000) at a rate of more than 280 percent of that of low balance loans (those below $50,000). The Federal Home Loan Mortgage Corporation (Freddie Mac) reported in a December 22, 1992 response to questions on Title XI implementation submitted by then Chairman of the House Subcommittee on Commerce, Consumer, and Monetary Affairs, Representative Doug Banard, that

the secondary market corporation's "delinquency rate for loans under $100,000 was 0.51 percent; while for loans above $100,000 the delinquency rate was 0.66 percent".

In the commercial real estate arena, the proposal conflicts with the August 1992 Office of Management and Budget (OMB) report to the Congress, "*De Minimis* Levels For Commercial Real Estate Appraisals", which concluded that "an increase in the *de minimis* level for commercial real estate appraisals is not appropriate until the appraisal reform provisions of FIRREA can be evaluated based on full implementation and more complete and reliable data".

In addition, the proposal contradicts advice of the Department of Treasury's Financial Management Service (FMS) to federal agencies to require collateral evaluation "as valued by independent appraisers" for federal direct loan programs, (see Department of Treasury, FMS, January 1989, "Managing Government Credit: A Supplement to the Treasury Financial Manual"), and conflicts with the conclusions of the March 16, 1992 OMB Bulletin No. 92-06, "Guidance on Real Estate Appraisal Standards and Practices", that similarly requires the use of licensed and certified appraisers for federal agency programs.

CONSUMER IMPACT

The proposed increase in the *de minimis* level will have a deleterious impact on the interests of millions of consumers who today rely on quality appraisals afforded them by licensed and certified appraisers. The proposal will deprive consumers of the services of professionally trained appraisers who are required, under Title XI, to observe the Uniform Standards of Professional Appraisal Practice (USPAP) and are accountable to State certification review and licensing enforcement.

A proper appraisal is an unbiased estimate of value, reflecting market conditions, that is a vital piece of information necessary for a consumer to make an informed decision about a real estate transaction.

The purchase of a home is, for most consumers, the most important financial transaction they ever engage in. Millions of consumers go through the complex real estate settlement process every year. Consumers are heavily reliant on the real estate professionals with whom they deal directly and indirectly -- including the appraiser -- for the delivery of accurate and unbiased information.

It is CFA's firm belief that accurate and reliable appraisals are a necessary component of the public's perception of and confidence in real estate and credit markets.

Unprofessional and improper appraisals result in real estate property being either undervalued or overvalued -- both of which materially damage the interests of consumers.

Undervalued property results in the rejection of a mortgage applicant and the denial of home ownership. Overvaluation of property results in improper and misleading information being provided to the consumer. This increases the likelihood that a homebuyer will settle on a contract price in excess of market value and will increase the probability of default and loss to the lender.

Title XI appraisal requirements guard against these types of fraud by placing an appraiser's license -- the ability to conduct business -- at risk for improper conduct. The proposed *de minimis* threshold of $250,000 will wipe out the market safeguards that Title XI provided consumers and will invite the reintroduction of faulty and fraudulent appraisals into the underwriting of mortgage loans -- practices that will harm consumers, lenders, real estate markets and deposit insurance funds.

CFA is particularly concerned that the proposed *de minimis* level will exacerbate problems of credit discrimination for inner-city, and particularly minority consumers, whose mortgages are infrequently purchased by and, therefore, enhanced by the quality standards of government-related secondary mortgage markets.

Minority and low-income consumers are particularly in need of the protection afforded by independent, competent and fair appraisals. This Subcommittee has recently completed hearings that confirm on going problems of redlining practices by the banking industry that serve to deny minority and low-income homebuyers mortgage credit on fair terms. Obtaining "low-ball" appraisals has historically been a principle means by which lenders perpetuate redlining practices.

Additionally, lower income homebuyers are often victimized by sellers of real estate who sell property at exorbitant prices, taking advantage of the homebuyer's relative lack of sophistication in the real estate market. For these homebuyers, an independent and competent appraisal is a front line safeguard against unfair and abusive treatment.

The pending proposal to amend appraisal requirements will increase the burden these consumers face in obtaining mortgage credit by denying them the opportunity to initiate State regulatory board administrative proceedings against evaluators of collateral they believe to have engaged in improper and fraudulent practice. This result is counter to the national interest of eradicating bias from the nation's credit markets and from the stated goal of the proposed amendments to promote the expansion of credit availability.

We believe, furthermore, that the proposal may well undermine a critical fair lending reform included in the FDICIA legislation requiring lenders to give mortgage applicants copies of their appraisal reports.

This provision, sponsored by Congressman Mfume of the Banking Committee, was intended as a civil rights measure to counter concerns that discriminatory appraisal practices may prevent minority homebuyers from obtaining credit or being charged excessive amounts for real estate.

Lenders have historically refused to give borrowers copies of appraisals -- even though consumers have paid for them. This has made it extremely difficult, if not impossible, for consumers to pursue claims of discriminatory treatment. In passing the provision in 1991, the sponsors hoped that access to appraisal reports would enable fair housing groups, civil rights enforcement agencies and others to determine when and how discrimination was creeping into the appraisal process.

CFA notes that, in contrast to the pending proposal, the OCC recently released Examination Bulletin 93-3, "Examining for Residential Lending Discrimination", that highlights the importance of lender adherence to professional appraisal standards in the evaluation of mortgage collateral. The Bulletin cites a number of appraisal practices that may lead to the denial of credit to otherwise creditworthy applicants.

ADDITIONAL CONCERNS

CFA additionally objects to proposals in the pending rule making to make "evaluations" discretionary when transactions are exempt from Title XI appraisal requirements. This is a radical departure from existing regulatory policy that has required depository institutions to conduct minimum evaluations of real estate collateral as a part of every sound loan underwriting decision.

Finally, CFA can find no justification for the proposal to permit the development of and insured depository institution use of "generally accepted appraisal standards" that are distinct from standards developed by the USPAP. Taxpayers can hardly afford to repeat another regulatory experiment with industry self-certification as occurred under RAAP during the 1980s. Not only would this proposal be an end run around USPAP, but it would generate enormous confusion for lending institutions, consumers and examiners in determining whether or not sufficient information had been provided on an estimate of real property value and would undermine the integrity of appraisal practices generally.

Finally, the proposal will not, in CFA's belief, reduce regulatory burden -- one of the states goals of the proposed rule. Rather, the proposed revisions to Title XI will result in a cumbersome appraisal procedure, will increase uncertainty in the evaluation of real estate collateral and will expand paperwork requirements for lending institutions seeking to determine the applicability of proposed exemptions to Title XI standards.

CONCLUSION

Mr. Chairman, consumers will be particularly harmed by this proposal. Inaccurate and unprofessional appraisals can add thousands of dollars to the cost of a families shelter and can even bar a consumer from the very opportunity of homeownership and the prosperity of the American dream if property is fraudulently undervalued. Consumers -- ever mobile in today's job market -- will be particularly harmed in our nation's recently soft or depreciating markets where housing values remain uncertain.

Consistent with the purposes of national banking law and the recently enacted FIRREA and FDICIA legislation, the paramount concern of the banking agencies should be the preservation of the safety and soundness of insured depository institutions and the protection of consumer interest. With this proposal the agencies have chosen to act as advocates of the banking industry rather than as regulators entrusted with statutory responsibilities to ensure safety and soundness and consumer protection.

For many, the current exemption may seem relatively small. But, we believe it may well be the first trickle of water under the levee of regulatory restraint. For the benefit taxpayers, consumers -- and the federal deficit -- now is the moment to plug the leaks -- not beg them on.

Because the proposed amendments to Title XI appraisal requirements will harm the interests of millions of consumers and expose deposit insurance funds to unnecessary and inordinate risk, CFA strongly opposes the adoption of the proposed rule and recommends that the proposal be rescinded.

SATURDAY, NOVEMBER 27, 1993 The Washington Post E2

REAL ESTATE

NATION'S HOUSING

Cost-Cutting Rules Sought On Appraisals

By Kenneth R. Harney

Federal banking regulators want to slash the cost of thousands of home appraisals performed around the country.

Sound good to you as a consumer? After all, why pay $300, $400 or more if regulators can help you pay less?

There's just one catch: The cost-cutting plans don't necessarily extend to you. They're solely for banks and thrift institutions, which need not pass on a cent of the actual savings when you go to settlement on your mortgage.

Even more important, by allowing banks to use in-house or other personnel who are not state licensed or certified as appraisers, the market valuation of the house you plan to finance could be affected—up or down. For example, an uncertified, inexperienced appraisal employee of a bank could undervalue the property you expect to purchase, thereby lowering the maximum loan allowed and perhaps blowing the whole deal.

That could be the case particularly in market areas that take special skills to appraise, such as neighborhoods that haven't had many sales recently, or areas were values have been soft but are now turning around. The same goes for central-city neighborhoods or rural areas.

So what are the regulators planning to do? Here's a quick overview.

Regulators Consider New Rules on Appraisals

Changes to federal appraisal standards for state banks, national banks and consumer savings banks are part of a deregulation package being pushed by the Clinton administration. The four major financial institution overseers—the Comptroller of the Currency, the Federal Reserve Board, the Federal Deposit Insurance Corp. and the Office of Thrift Supervision—now all agree: Appraisals on properties with loans less than $250,000 do not require professional valuations by licensed or certified appraisers.

That's because licensed appraisers tend to charge more, and they take more time doing their valuations than banks and thrifts making home mortgages really need. Moreover, regulators say that studies by their own auditors show that loans on properties at less than $250,000 haven't been the main source of the banking and thrift industries' well-publicized financial woes. Loans to developers of condo projects or commercial properties have been far bigger culprits.

The regulators also argue that raising the threshold for certified appraisals from $100,000—its current statutory level nationwide—to $250,000 would have no impact whatsoever on the "safety and soundness" of any bank. To the contrary, they say, appraisal deregulation would streamline the whole mortgage lending process and cut total costs. A $250,000 threshold would mean that 82 percent of all existing homes and 85 percent of newly built homes financed by banks and thrifts no longer would require valuations by licensed appraisers.

All loans originated for sale to the big secondary market agencies—the Federal National Mortgage Association and the Federal Home Loan Mortgage Corp.—would still be subject to the $100,000 rule, however, because both firms insist upon it to maintain underwriting quality. But large numbers of new loans would not.

How would that affect you if you applied for a mortgage at a bank or thrift covered by the revised standard, which could take effect in 1994? Would you get the same quality appraisal on your home and pay less?

Rhoger H. Pugh, the Federal Reserve's assistant director for bank supervision and regulation, is emphatic that you will. By using in-house personnel to "evaluate" your property, "you're going to save time and do the job at a lower cost."

"I would hope that [banks] would share the benefits [of the relaxed appraisal standards] with the consumer. ... there is no requirement that they do so."

— Rhoger H. Pugh,
Federal Reserve assistant director

But Pugh conceded in an interview that nothing in the proposed regulatory change would encourage or require a bank to pass along the reduced cost to borrowers. The effective cost for an in-house appraisal could be relatively small—$150 or less—but the settlement sheet could still bill you for the going local rate, such as $350 or $400.

"I would hope that [banks] would share the benefits [of the relaxed appraisal standards] with the consumer," he said. "But you're right, there is no requirement that they do so."

That, say critics of the rule change, could open home mortgage borrowers to a double whammy: They would be charged the same amount as they'd pay for a licensed appraisal but would receive a valuation by an individual who had not passed the minimum educational and experience tests for certification required of appraisers in all 50 states.

According to Richard C. Sorenson, the incoming president of the Appraisal Institute, a national professional group, more than 80,000 appraisers across the country have qualified for certification or licensing under state standards. And, argued Sorenson, the number of certified appraisers has been growing steadily, putting downward pressure on prices in some markets.

Competition among trained professionals—not cutting the quality of the product—is the smarter way to go on appraisals, in Sorenson's view.

TESTIMONY

of

MICHAEL MACIELAG

PRESIDENT/CHIEF EXECUTIVE OFFICER
THE CHESAPEAKE BANK AND TRUST COMPANY
CHESTERTOWN, MARYLAND

on behalf of the

INDEPENDENT BANKERS ASSOCIATION OF AMERICA

before the

SUBCOMMITTEE ON GENERAL OVERSIGHT, INVESTIGATIONS
AND THE RESOLUTION OF FAILED FINANCIAL INSTITUTIONS

of the

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

MARCH 1, 1994

Mr. Chairman, my name is Michael Macielag, and I am President and Chief Executive Officer of the Chesapeake Bank and Trust Company of Chestertown, Maryland. I am appearing here on behalf of the Independent Bankers Association of America (IBAA), and serve on its Federal Legislation Committee. The IBAA is the only national trade association that exclusively represents the interests of the nation's community banks.

The topic of this hearing is to discuss the proposed amendments to the banking agencies regulations that implement Title XI, the appraisal section, of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) and the agencies' proposal to raise the *de minimis* level for appraisals to $250,000.

The IBAA strongly supports an increase in the *de minimis* to $250,000. The proposed $250,000 *de minimis* is justified by several factors including data on banks' low level of losses on real estate-secured loans, particularly for the 1-to-4 family loans; unwarranted higher appraisal costs; no impact on safety and soundness; and, the adverse impact appraisal requirements have had on credit availability. A $250,000 *de minimis* will remove time consuming and costly appraisal requirements while allowing banks to originate residential mortgages, small commercial loans, and other real estate related loans using proven underwriting standards. A $250,000 *de minimis* will benefit my customers and my community.

FIRREA mandated that banks use state certified or licensed appraisers for federally related transactions. In their implementing regulations, the agencies identified categories of real-estate related financial transactions that do not require the services of an appraiser to protect federal financial and public policy interests or to satisfy the principles of safe and sound banking. Consequently, the agencies provided an exemption to the appraisal requirements for transactions below a "de minimis" level, currently set at $100,000 and proposed to be increased to $250,000.

In December 1992, Congress provided that the agencies could establish such a *de minimis* threshold below which the services of a state certified or licensed appraisers are not required in connection with a federally related transaction. To establish the *de minimis*, Congress required that the agencies determine in writing that the threshold does not represent a threat to the safety and soundness of financial institutions. <u>The agencies have fully satisfied this statutory requirement.</u>

In 1992, I appeared before this subcommittee to discuss the topic of appraisals. Many of the issues and the controversies surrounding the appraisal rules remain the same. One significant and much needed change is the pending interagency proposal to increase the *de minimis* level to $250,000. Unfortunately, the agencies have delayed final action on this proposal due to the onslaught of letters from the appraisal industry opposing the *de minimis* for reasons that have nothing to do with safety and soundness and everything to do with full employment for appraisers.

In its recent report to Congress on the appraisal issue, GAO noted that the primary concern raised by the appraisal organizations against the *de minimis* threshold is that it exempts more than half the homes in the country from the appraisal requirements. Noticeably absent in

the appraisal organizations arguments is any mention of safety and soundness - the only factor that Congress requested the agencies consider when setting the *de minimis*. The appraisal organizations cannot make a substantive safety and soundness case for not raising the *de minimis* appraisal because the facts and the industry's loss history does not allow for it. Raising the *de minimis* would not impact safety and soundness.

Since the only issue before us is the risk to the industry and the insurance funds, it is past time that the agencies adopt the final rule increasing the *de minimis* to $250,000. The agencies have already determined that a Title XI appraisal can impose additional direct and indirect costs on both the lender and borrowers. In fact, the proposal notes that in some cases, appraisals may prove so expensive that they may make a sound small- or medium-sized business loan uneconomical. The agencies have also found that for loans below the proposed $250,000 appraisals do not add to the safety and soundness of the credit.

The Chesapeake Bank and Trust is a $44 million community bank, located in Chestertown, Maryland--a small town on the rural eastern shore. My bank is typical of the IBAA membership. We make loans almost exclusively in our local community. I, and my customers, have experienced firsthand the burdens of cost and delay resulting from the current appraisal regulation.

The appraisal rules have increased my costs-- and more importantly, unnecessarily increased the costs to my borrowers. In some instances, the appraisal rules have made affordable loans unaffordable. In my bank, my directors and I perform the evaluations for all of our loans including those over $100,000. For loans over $100,000, where we must hire an outside appraiser, we have more confidence in our own evaluation than that of an outsider. In the seven year history of my bank, we have experienced NO losses on real estate loans.

To truly understand the role of appraisals, one must understand prudent lending principles. Lending is an art not a science. To make a good loan, a banker must look at each of the five C's of credit. Sound underwriting involves considering the borrower's Character, his or her Capacity for debt, his or her overall Creditworthiness, Cash flow, and finally, any Collateral the borrower may offer. For most bankers, collateral is the last factor that they consider when underwriting a loan.

Real estate loan decisions cannot be based primarily on appraisals. Depending on the region of the country and how knowledgeable the appraiser is about the local real estate community, appraisals can be accurate, overly generous or gross underestimations of value. In my own town, I have seen appraisers from the Annapolis or Easton area come into town with almost no understanding of my market. How can an outsider's judgement be more valuable than my own? There can be no benefit to safety and soundness in relying on an appraisal done my an individual who does not know or understand the local market.

It is in a bank's best interest to ensure an accurate appraisal value--one that does not undervalue the property which could result in a lost loan opportunity or one that overvalues the

property, resulting in additional exposure to the bank. And, the fact that a loan may be below the *de minimis* does not preclude the agencies from requiring Title XI appraisals to address safety and soundness concerns. If a bank is found to be engaged in poor underwriting, the agencies could require Title XI appraisals on all loans as necessary to improve the soundness of the loan portfolio. However, it is fair to say that if the agency is forced to take that step to ensure safety and soundness, the institution has problems far beyond the issue of appraisals.

History has shown us the adverse effects of collateral-based lending without prudent underwriting. The agriculture and oil crises of the mid 1980s illustrated very well what happens when banks make lending decisions based solely on collateral values. A 50% loan-to-value (LTV) limitation did not protect banks that lent money on land valued at $4,000 per acre that subsequently fell to $1,800 per acre by the end of the decade. As a result, the ag banks that relied solely on collateral lending did not survive the 1980s.

Both industry and regulatory studies have found that losses on the loans below the *de minimis* have been nominal. The results of the October 1991 survey (please see attached) support this statement. The IBAA surveyed 6,087 community banks regarding real estate appraisals, losses on real estate-secured loans, and appraiser availability and costs. The purpose of the survey was to determine loss levels by banks on real estate-secured loans. The survey revealed that residential loans caused minimal losses to the responding banks, a finding supported by later regulatory studies.

Over half of the banks responding to the IBAA survey said they had no losses on real estate-secured loans in the past three years. Out of an average $13.6 million real estate loan portfolio, community banks reported average losses of $23,000 for the first nine months of 1991, $34,000 for 1990 and $28,000 for 1989. Only a nominal percentage of the losses were between $50,000 and $100,000.

The data showed even lower losses for rural banks and that 52% of those responding reported no losses at all on real estate-secured loans. This data is supported by FDIC statistics that show losses on real estate loans are concentrated in large commercial real estate ventures--something the average community bank is not involved in.

When they reopened the comment period on the appraisal rule, the agencies released supplemental information consisting of surveys, studies, and comment letters not previously included in the public file on the proposed rule. The supplemental information, which the subcommittee now has, supports the increase in the *de minimis* to $250,000 with loss experience data and testimony that clearly indicate an increase in the threshold will not have a significant impact on safety and soundness.

The agencies' risk findings detailed in the supplemental information largely track the experience of community banks--a very low level of loan losses. As I previously indicated, community banks have experienced minimal, and sometimes no losses on the types of loans that would qualify for an exemption from the appraisal rules as a result of a higher *de minimis*. In

instances where banks will forego an appraisal for loans below the *de minimis*, the cost-savings will be passed on to consumers making credit more affordable to potential borrowers and creating more business opportunities for the bank.

For example, I can think of one young very disciplined entrepreneurial couple who started a small sandwich shop with no resources other than a family member who was willing to co-sign a note and a bank that believed in them. We made them a small loan. Through hard work, long hours, frugality, discipline and determination, they have made their business a success and have managed to save $40,000 over the last five years. They are now ready to purchase the small building in which their business is located and we are ready to lend them the $150,000. This building is less than one block from the bank in a market with which we are familiar. We know this is a good loan. The estimates we have received for an appraisal from three certified appraisers range from $1500 to $2200. When I conveyed the cost to Mrs. X, she was nearly moved to tears over spending that much money on something they neither needed nor wanted because somebody in Washington, D.C. said we had to have it.

The existence of a *de minimis* threshold does not mean that all loans below a specific level will not be appraised. Extenuating circumstances, specific underwriting criteria, collateral concerns, or secondary market considerations will often prompt an appraisal, regardless of a *de minimus*. Determining when an appraisal should be performed is a business decision that should be made by the bank. The almost non-existent losses for loans below the $100,000 de minimis indicate the value of banker judgment. Further, the loss experience data also demonstrates that community banks have the knowledge and real estate valuation experience to complete accurate evaluations on loans below the *de minimis*. A higher *de minimus* will return banker judgment to the lending process--something that has been regulated out of much of the credit underwriting process. The facts support the agencies' proposal to increase the *de minimis* and address the concerns of Congress that the higher *de minimis* not affect safety and soundness.

Community bankers similarly report immaterial losses on commercial real estate below $1 million for which real estate is not the primary source of repayment. The low level of losses for those commercial real estate loans carried by community bankers is also due to the higher degree of monitoring that small businesses and other small commercial loans receive from community banks.

The required use of a licensed or certified appraiser has significantly increased the costs of appraisals and the time required to complete them. A sampling of bankers indicated that the cost of residential real estate appraisals has doubled, and in some cases even tripled, since the appraisal regulations were implemented. The cost of commercial appraisals has doubled over the same time period. The length of time to complete appraisals has also lengthened significantly by three to five weeks over pre-FIRREA processing times. Changes in appraisal report requirements, and certified and licensed appraiser shortages or availability problems have contributed to the higher costs, thereby making credit less affordable for potential residential and commercial borrowers.

As the IBAA predicted, the appraisal regulations have also exacerbated the lack of appraiser availability in rural areas. The agencies' original *de minimis* level of $100,000 substantially improved this situation. We believe that increasing the *de minimis* level to $250,000 will provide similar benefits without lessening the safety and soundness standard.

Additional Appraisal Regulations

The IBAA believes it will cause further delays and costs increases if additional appraisal provisions as presented in the interagency proposal are adopted. This would require information on items such as revenues, expenses and vacancies; deductions and discounts; separate valuation of personal property; and, reconciliation of three approaches to value to be incorporated into the appraisal report. Community bankers have indicated that the information under consideration is currently provided in applicable appraisals and is already factored into the credit decision. Additional regulation in these areas is unnecessary and would further burden consumeis and banks.

The IBAA is especially opposed to requiring the separate valuation of personal property. Personal property is frequently taken in an abundance of caution and often is not valuable enough to justify the cost of an appraisal. The agencies should allow banks to apply the prudent judgment test to determine whether an appraisal of personal property is necessary to ensure collateral value rather than regulating uniform appraisal practices which may be unnecessary and counterproductive.

Should the agencies adopt the additional reporting requirements, the IBAA proposes that these requirements be imposed only on appraisals for business loans that approach the bank's lending limit and could pose a material risk to the safety and soundness of the institution.

General Comments

We do support the following proposed provisions:

- The expanded scope of the exemption for real estate liens taken in an "abundance of caution."
- The prudent move by the agencies to recognize banks' experience in lending by permitting the use of evaluations for real estate transactions posing nominal risk.
- The streamlining of appraisal requirements from 14 to four standards.
- The use of the Departure Provision.
- The use by a regulated institution of an appraisal that was prepared for **any financial services institution, including mortgage bankers** which will further control appraisal costs.

Conclusion

The IBAA strongly supports an increase in the *de minimis* level to $250,000. The evidence overwhelmingly indicates that safety and soundness concerns are not existent for real estate below $250,000. Relaxing appraisal regulations as proposed will improve credit affordability and appraiser shortages, reduce costs and delays, and enhance credit availability without adversely affecting safety and soundness. We urge regulators to proceed with adoption of this final rule without any further delay.

IBAA also strongly urges that this committee keep in mind that appraisal regulations are just one of many safety and soundness regulations. Appraisals are NOT intended to be consumer protection measures. Consumers may want and are entitled by law to copies of their appraisals; however, the thrust of appraisal requirements is to ensure safety and soundness and an accurate valuation of collateral. The appraisal rules are also NOT intended to be a full employment act for appraisers. Appraisers play an important role in the lending process, but they ultimately are not the underwriter, they are not the risk taker--the bank is. If banks can determine that the risk of not using an appraiser is minimal; if the agencies can support (with significant data) that a *de minimis* poses no risk to the financial system; then, there is absolutely no justification for not raising the *de minimis* to $250,000 today.

TESTIMONY

OF

PAUL H. GEITHNER, JR.

ON BEHALF OF

THE AMERICAN BANKERS ASSOCIATION

BEFORE THE

SUBCOMMITTEE ON GENERAL OVERSIGHT, INVESTIGATIONS, AND THE RESOLUTION OF FAILED FINANCIAL INSTITUTIONS

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 1, 1994

Mr. Chairman, my name is Paul Geithner and I am President of First Virginia Banks, Inc., Falls Church, Virginia. First Virginia Banks, Inc., is a $7 billion multi-bank holding company which has 21 banks and 326 offices in Virginia, Maryland and Eastern Tennessee. All banks but the lead bank located in Northern Virginia are in the $50 million to $500 million asset range size. The banks in the holding company serve rural, suburban and urban areas of Virginia, Maryland and Tennessee. I currently serve as a member of the Administrative Committee of the Government Relations Council of the American Bankers Association ("ABA"). The ABA is the only national trade and professional association serving the entire banking community, from small community banks to large bank holding companies. ABA members represent approximately 90 percent of the commercial banking industry's total assets, and about 94 percent of ABA members are community banks with assets less than $500 million.

I appreciate the opportunity of appearing before the Subcommittee on General Oversight, Investigations, and the Resolution of Failed Financial Institutions as you examine and explore the impact of raising the threshold level at or below which state licensed or certified appraisers are not mandated on commercial and residential real estate transactions. The successful implementation of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("Title XI") with a minimum of disruption to the real estate lending process and this nation's economic well-being is essential to commercial banks and consumers throughout this country. The ABA believes that the bank and thrift regulators in implementing Title XI have effectively addressed many issues arising from Title XI. It is appropriate that this Subcommittee continue its

review of the status of this process and hold public hearings to focus on issues and concerns relating to this implementation. In particular, Mr. Chairman, I recognize your leadership in holding these hearings.

BACKGROUND

Commercial banks are major users of real estate appraiser services. The existing federal regulations implementing Title XI along with the Federal banking regulators' 1992 Real Estate Appraisal and Evaluation Guidelines established policies and procedures relating to many aspects of the appraisal process. Throughout this process commercial banks continue to dramatically increase their share of mortgage lending, particularly in the residential area. According to recent statistics, commercial banks held approximately 33 percent of all mortgage debt outstanding as of the close of the third quarter of 1993. At the same time commercial banks held approximately 24 percent of all one-to-four family residential units, approximately 61 percent of multifamily units, and approximately 80 percent of all non-residential mortgage loans. As these statistics indicate, banks are heavily involved in real estate lending activity, which precipitates the need for adequate appraisals or evaluations as appropriate for the collateral supporting these loans.

The ABA has actively participated in the Title XI implementation process. Even before the 1989 enactment of Title XI, the ABA, in 1987, joined with several appraiser organizations in recognizing the importance of quality appraisals and competent real estate appraisers as a "charter" special member of The Appraisal Foundation. Since that

time the ABA has been an active participant in The Appraisal Foundation's development through our membership on the Foundation's Board of Trustees. Our current member of the Board of Trustees, Harvey Huber, President and Chief Executive Officer of Union State Bank, Hazen, North Dakota began his service as a member of the Board this year and will fully participate in the Board's activities. The ABA recognizes the value of input from users of appraisal services as part of the mandate of The Appraisal Foundation and has considered itself an integral part of this process.

The ABA has been particularly involved in the activities of The Appraisal Foundation's Appraiser Qualifications Board and Appraisal Standards Board and representatives of the ABA have attended a majority of the two board's meetings since their inception. A representative of the ABA also serves as an active member of the Appraisal Standards Advisory Council.

The current activities of the Appraisal Standards Board are particularly significant as the Board develops its position on the application and structure of the Departure Provision of the Uniform Standards of Professional Appraisal Practice ("USPAP"). The Board in developing its position on the Departure Provision has recommended a dramatic new approach to the application of this USPAP component to the appraisal process. If adopted, the revised Departure Provision will potentially reduce the paperwork involved in real estate appraisals and streamline the process from the

appraisal to the appraisal report. The ABA has strongly encouraged this process and advocated the adoption of language in the Departure Provision which will ensure that state licensed and certified real estate appraisers will be able to perform evaluations as recognized by the banking regulators in keeping with USPAP.

The ABA has also urged the banking regulators to adopt the Departure Provision as an integral part of the appraisal regulations implementing Title XI. The June 1993 Federal bank and thrift regulatory agencies' proposal, if adopted as proposed, would incorporate the Departure Provision in the agencies' regulations. Although a significant step forward in streamlining and facilitating the appraisal process the adoption of the Departure Provision as recommended by the ABA would not on its own satisfy the need for the regulators' proposed increase in the threshold level to $250,000.

The ABA continues to inform our members of issues relating to the implementation of Title XI through dozens of articles published in the ABA Bankers News. ABA Bankers News has featured full page news articles focusing on the activities of the Appraisal Subcommittee, the Appraiser Qualifications Board, and the Appraisal Standards Board. Thus the ABA has taken an active role informing bankers of procedures and policies relating to the implementation of Title XI, and the activities of The Appraisal Foundation and its constituent committees.

FEDERAL AGENCY IMPLEMENTATION

The consistent application of the Title XI mandated appraisal rules by the various Federal regulatory agencies, the implementation of these rules by financial institutions engaged in "federally related transactions" and coordination of these activities among the Federal regulatory agencies and the state licensing and certification systems are of significant importance in the implementation of Title XI. Uniform training and guidance for Federal bank examiners responsible for the enforcement of Title XI is essential in order to improve consistency in the examination process. This will also enhance the understanding of what is expected of banks and appraisers in meeting the requirements of the Federal regulators.

The Federal regulatory agencies have exercised foresight in responding to issues relating to the implementation of Title XI. In particular, the agencies in issuing their 1992 Real Estate Appraisal and Evaluation Guidelines sought to clarify what is expected of banks in terms of the real estate appraisal process particularly relating to real estate appraisal policies and the form and content of real estate evaluations. This provides banks with guidance as to the components of the real estate evaluation, the criteria for its use and the individuals eligible to perform evaluations. The ABA believes that the evaluation guidelines should provide banks with a significant level of flexibility in the evaluation process to ensure that evaluations are performed in a manner consistent with safety and

soundness considerations and in keeping with the role collateral plays in the loan underwriting process.

In response to the nationwide need to stimulate credit availability and to further refine the real estate appraisal regulations so as to streamline the process, reduce delays and costs to consumers in keeping with the safety and soundness of this country's financial system, in June 1993 the agencies proposed modifications to the existing regulations so as to accomplish these objectives. In its comment letters to the Federal Reserve Board, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, the ABA enthusiastically endorsed the substance of the agencies' recommendations.

When adopted, the proposed regulations will help achieve the goal of a more workable real estate appraisal and evaluation process. The proposed regulations will result in a reduction in costs associated with this process, and an elimination of inordinate delays associated with obtaining the services of state licensed or certified real estate appraisers. The proposed regulations provide banks with flexibility in managing the appraisal process so that bankers can exercise their own business judgement regarding many aspects of the process. The proposed regulations will also enhance the availability of credit, particularly for small businesses, and will be a key factor in efforts to foster small business lending.

In November 1993, the bank regulators reopened their comment period in order to focus on the increase in the threshold portion of the proposed regulations. In doing so, the agencies placed in the public record supplemental information relating to such an increase. This information includes 1992 and 1993 surveys of the agencies' senior examination staff relating to the current and proposed thresholds, comments from the Federal Reserve Banks on these issues, studies by the General Accounting Office ("GAO") on the causes of thrift failures, statistics relating to small business loans, and data obtained from the FDIC Quarterly Banking Profiles among other items. The agencies included this information in the record because they "believe the public interest will be served by allowing interested parties to comment on supplemental information relating" to the threshold level.

The ABA reviewed and analyzed the supplemental information provided by the agencies as part of the public record. The surveys of each agency's senior examination staff, the survey of the Federal Reserve Banks and the other supporting data clearly and unequivocally demonstrate that there are no safety and soundness problems created by the existing \$100,000 threshold or that could be contemplated based on experience if such a threshold were increased to \$250,000. The supplemental information also clearly identifies inadequate appraisals as not a significant factor in bank failures or in losses to banks. Instead, inadequate appraisals were overshadowed by factors such as the decline in value due to economic problems, abuse, fraud, and underwriting deficiencies. Also, the GAO study regarding thrift failures concluded that inadequate appraisals were not one of

the key factors in these failures. The agencies' supplemental information fully supports the proposed increase in the threshold to $250,000 and clearly demonstrates no safety and soundness concerns for such an increase.

Much attention has focused on the proposed increase in the real estate appraisal threshold level from $100,000 to $250,000. This increase, while significant and beneficial to the real estate lending process, is only one aspect of the agencies' revisions to the existing appraisal regulation. Recognition of the USPAP Departure Provision, elimination of the redundant 14 additional appraisal requirements previously established by the bank regulators, clarification of the application of the abundance of caution exemption, and creation of an exemption for certain real estate secured business loans of less than $1 million are also important components of the real estate appraisal process.

The ABA strongly urged the Federal regulatory agencies to adopt the proposed regulations as soon as possible.

THRESHOLD

The ABA and our member banks and bank holding companies have consistently supported the establishment of a threshold below which the use of state licensed or certified real estate appraisers would not be required. The Federal bank and thrift regulatory agencies established this level at $100,000. In June 1993 the regulatory agencies proposed an increase in the threshold to $250,000. If there is one issue which banks of all sizes, located in all regions of the country agree on, that is the necessity of

such a threshold. That is best represented by the several thousand letters submitted to the Federal bank regulatory agencies by banks in support of the increase in the threshold level to $250,000.

The establishment of a threshold level relates to whether or not a state licensed or certified appraiser must appraise the real estate in question. It is not an issue as to whether or not the financial institution should appropriately evaluate the real estate. The Federal banking agencies' regulations require that banks have an appropriate evaluation of real estate complying with the agencies' real estate appraisal and evaluation guidelines regardless of whether or not this evaluation is performed by a state licensed or certified real estate appraiser.

Thus, banks have to ensure that adequate evaluations meeting these guidelines and regulations are performed for real estate, regardless of this threshold. Banks also have to ensure that these evaluations are performed by "competent" individuals who are independent of the transaction. These requirements are sufficient protections to ensure that the evaluation of real estate, regardless of transaction value, supports the real estate credit. Requiring that all federally-related real estate transactions regardless of dollar amount be supported by an appraisal performed by a state licensed or certified real estate appraiser would only increase costs for consumers and result in additional delays in the loan approval process.

In terms of First Virginia Banks, Inc. own activities, we use a variety of staff and fee appraisers and evaluators to establish value for our collateral. First Virginia Banks, Inc experience indicates that it takes at least twice as long to complete an appraisal by a state licensed or certified real estate appraiser to comply with Title XI as it does for our own evaluations that we have been successfully using for more than twenty years. The additional time eventually translates into greater costs for our customers without commensurate benefits.

In some of the rural areas served by First Virginia, thirty days or more may be required in order to secure an appraisal performed by a state licensed or certified real estate appraiser. This delay is a direct result of an insufficient number of state licensed or certified appraisers readily available to serve these rural communities. An increase in the threshold level to $250,000 would greatly alleviate this problem.

A $250,000 threshold level would have no safety and soundness implications for commercial banks. Again these transactions must be supported by an adequate evaluation of the real estate performed by competent individuals who do not have a direct involvement in the specific transaction. In terms of the research of the Federal banking regulatory agencies and from information obtained from bankers throughout the country, it is abundantly clear that losses associated with real estate loans in the range of $250,000 and below caused by inadequate, faulty, or fraudulent appraisals is statistically insignificant. Losses on loans in this range historically relate to other factors such as

underwriting problems associated with the credit-worthiness of the borrower, failure to dequately protect the bank's interest in the collateral and economic problems associated with particular regions of the country. The instances in which a faulty appraisal contributes to losses associated with lending activity are minimal and of such a nature that the imposition of the costs and delays associated with requiring state licensed or certified appraisers for the $250,000 and below transaction range would in no way provide any public policy benefit. Failure to recognize the validity of such an increase in the threshold would be a classic example of regulatory overkill; mandating additional costs, delays, and paperwork without any safety and soundness or consumer benefits.

ABA COMMERCIAL REAL ESTATE APPRAISAL SURVEY

In response to the mandate of the Federal Deposit Insurance Corporation Improvement Act of 1991 that the Office of Management and Budget ("OMB") conduct a study of the appropriateness of a separate threshold level for commercial real estate loans, OMB met with bankers to solicit information on the validity of such a separate threshold level. In support of the anecdotal information provided by the ABA and member banks, the ABA's Surveys and Statistics Division conducted a 1992 survey of some 2,800 banks selected by region and type of commercial real estate lending. This survey focused on issues relating to the availability of appraisers, the validity of the existing threshold level, the costs associated with real estate appraisals and the commercial real estate loan loss experience by loan size. The results of this survey provide dramatic evidence that there is not significant loss experience on commercial real estate loans, only

loss rates on construction and land development loans showed any tendency to rise with loan size, but even here the increase was most significant above $500,000. For farmland, multi-family, and non-farm, nonresidential loans there was no reported consistent tendency for loss rates to rise until the loan size exceeded $500,000.

The results of this survey also indicated that banks that currently employ independent fee appraisers are having difficulties obtaining the services of commercial real estate appraisers within their market areas. Forty-nine percent of the banks that responded to this survey reported they are experiencing these problems. Most of the respondents also reported that the time required to complete a commercial real estate appraisal has increased in the past year; 71 percent of all respondents cited increases in appraisal turnaround time; and 78 percent of the respondents reported that the costs of real estate appraisals have increased in the last year. On average, the respondents reported that the costs increased 48 percent. Banks with less than $300 million of assets reported a 67 percent increase.

This survey is a good indication that in the case of commercial real estate transactions the existing threshold level has no safety or soundness implications for commercial banks. It also supports the desirability of increasing this level to at least $250,000.

APPRAISER AVAILABILITY

At the same time, this survey raises additional concerns as to the availability of appraisers, the time involved in completing appraisals and the increasing costs associated with these appraisals. This problem is being experienced on a local and/or regional basis with particular problems in rural areas. It is important to remember that the availability of licensed or certified real estate appraisers is not determined solely by the gross number of licensed and certified real estate appraisers on a nationwide basis but the number of such appraisers available to serve markets in specific regions of the country. The ABA recommends that Congress be vigilant in recognizing problems in the availability of state licensed or certified real estate appraisers along with delays and costs associated with real estate appraisals.

RECIPROCITY AND TEMPORARY PRACTICE

Banks and their customers are currently experiencing problems associated with the ability of state licensed or certified real estate appraisers to perform appraisals in more than one state. Under the state licensing and certification system, the states have developed different criteria and procedures for authorizing licensed or certified real estate appraisers in other states to do business in their state. There is no uniformity among the states in authorizing this activity and in many cases the existing state laws serve to severely restrict access by state licensed or certified real estate appraisers into specific states. Title XI provides for temporary practice by which a state licensed or certified appraiser can

perform appraisals on a limited basis in other states. Title XI is silent on the question of reciprocity which would allow individuals already state licensed or certified real estate appraisers to obtain licenses or certifications in other states on a permanent basis. It is essential that states establish simple and flexible procedures for recognizing temporary practice and reciprocity so as to open the appraisal profession to individuals from outside a state's boundary. Real estate markets know no state boundaries. Without these modifications, the ability of banks to serve their customers who have property in multiple states or in markets encompassing two or more states will continue to pose a problem.

The ABA supports the language of HR 3474, the Regulatory Reform Act of 1993 which recently passed the House of Representatives. This legislation encourage states to develop reciprocity agreements to permit state licensed and certified real estate appraisers in one state to work in another state, and generally prohibits state licensing agencies from imposing excessive fees or burdensome requirements for temporary practice.

COMMUNITY DEVELOPMENT INITIATIVES

In terms of appraisals of real estate involving low-and-moderate income borrowers, there is no indication that the increase in the threshold level to $250,000 will in any way jeopardize the needs of these borrowers. Many residential mortgage loans involving low-and-moderate income borrowers would fall in a category likely to be sold to the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation or insured by the Federal Housing Administration or guaranteed by the Department of

Veterans Affairs. In those cases the appraisal requirements are established by these organizations and government entities.

In the interest of fostering greater understanding among all participants in the real estate process concerned with community development and lending to low-and-moderate income individuals, in 1991 the ABA established the Mortgage Lending Task Force to examine issues associated with this type of lending activity. As an out-growth of the task force report, the ABA established a Center for Community Development to encourage this type of lending and to coordinate information associated with all aspects of the community development lending process. As part of this program, the ABA and the Appraisal Institute conducted a joint program at the Appraisal Institute's July 1992 annual conference in Boston, Massachusetts. This conference featured a panel of real estate appraisers and bankers experienced in community development lending and appraising activities.

The ABA continues to explore new opportunities to enhance appraiser and banker understanding of the appraisal process as it relates to community development lending activities.

MARKET DATA AVAILABILITY

The ABA also is concerned with the availability of market data which is essential in the production of reliable appraisals. This information is not available to appraisers in many states. The Appraisal Subcommittee had studied the issue of market data availability and reported its findings to Congress in August 1990, in response to the mandate of Title XI. The ABA requests that Congress consider this study in terms of improving the availability of this type of information.

CONCLUSION

The ABA strongly endorses the increase in the threshold level to $250,000 and the adoption by the bank regulators of a final rule accomplishing this objective as soon as possible. The importance of this threshold level has been established in terms of the benefit to banks, their customers and the real estate market. It is also clear that there are no safety and soundness implications for financial institutions relating to this new threshold level. The ABA is concerned with the availability of state licensed and certified real estate appraisers particularly in rural areas and also with the increasing costs of appraisals and the delays associated with the appraisal process. The $250,000 appraisal threshold will enhance credit availability, reduce the costs of appraisals, eliminate delays in the closing process and do so without any negative impact on this nation's financial system.

On behalf of the American Bankers Association I appreciate the opportunity of appearing before your Subcommittee and will be glad to respond to requests for additional information.

Virginia Loan Manual	General Section	12/92
	Real Estate Appraisal Policy	I 23.1

I. General

A real estate appraisal is a formal estimate or opinion of value of a given property based on one or more of the following approaches:

A. Market - compares subject property to similar properties that recently sold; used primarily for residential property

B. Cost - estimates cost of acquiring a comparable substitute property by adding value of land and current construction costs and deducting depreciated cost of improvements; often used for special use buildings such as churches and schools

C. Income - Capitalizes income stream by converting expected future income from a property to present value taking into account the current required return on investment; used for income-producing property such as office buildings, hotels and shopping centers.

The appraiser gathers, evaluates and interprets all available data affecting the value of a property and arrives logically at the best estimate of the property's worth. The appraisal report may take one of the following forms, depending on the type of property, the amount of the loan and the objective of the assignment:

A. Letter - appraiser reports his/her opinion of value and the facts upon which it is based in the form of a business letter; used mainly for valuing a property for a prospective buyer and for updating appraisals due to changes in original assumptions.

B. Form - a standardized pre-printed form used primarily for residential mortgage loans. It is recommended that the member banks use a standard appraisal form such as those approved by Federal National Mortgage Association and Federal Home Loan Mortgage Corporation for residential (one-to four-family) properties, provided that such forms must satisfy Federal appraisal requirements.

C. Narrative - appraiser presents his/her value conclusion in a thorough, detailed report including information on the property, the marketplace, economic trends, zoning, title, objective of assignment and how the data was analyzed. This format is generally used for commercial real estate.

D. Limited evaluations (drive-bys) are basically a verification of the assessed value by making an inspection of the exterior of the property and surrounding neighborhood. Limited evaluations are routinely performed by Branch Managers. They do not satisfy Federal and State appraisal requirements (see below).

II. Federal Appraisal Requirements

A. Background

In accordance with the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), the Federal Reserve Board has established regulatory guidelines with respect to appraisal report requirements and appraiser qualifications. These guidelines have been made a part of Regulation Y. The appraisal report requirements became effective in August 1990; the appraiser qualification requirements are effective on January 1, 1993. In general an appraisal which conforms to Federal standards is required for any "real estate-related financial transaction," defined as any transaction that involves:

1. the sale, lease, purchase, or exchange of, or investment in, interests in real property, including the financing thereof; or

2. the refinancing of interests in real property; or

3. the use of real property or interests in property as security for a loan or investment, including mortgage-backed investments.

There are five categories of "real estate-related financial transactions" that are exempted from the requirements for a state licensed or certified appraiser:

1. the "transaction value"(in the case of a loan, the loan amount) is $100,000 or less;

2. a lien on real estate has been taken solely through an abundance of caution, and where the terms of the transaction are no more favorable than they would have been if no lien had been taken.

3. a lease transaction, unless the lease is the economic equivalent of a purchase or sale;

4. the renewal or extension of a maturing loan, provided that the borrower has made all scheduled payments under the note, no new funds are advanced, the borrower remains creditworthy, and the market conditions and collateral have not significantly deteriorated; or

5. the purchase of an interest in a pool of real estate loans, including mortgage-backed securities, provided that each loan in the pool satisfied the appraisal requirements.

B. Appraisal Report Requirements

An appraisal, as defined by Federal regulations, is a written statement independently and impartially prepared by a qualified appraiser setting forth an opinion as to the market value of an adequately described property as of a specific date, supported by the presentation and analysis of relevant market information.

For federally related transactions, all appraisals must conform to the Uniform Standards of Appraisal Practice ("USPAP") of the Appraisal Standards Board of the Appraisal Foundation, and must meet the following requirements:

1. Disclosure of competency - If the appraiser lacks the necessary experience or knowledge to perform an appraisal, this fact must be disclosed.

2. Market value - The appraisal must document the appraiser's opinion of "market value," defined as "the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus."

3. Written report - All appraisals must be written, either in narrative or in a form selected by the appraiser, and must be sufficiently descriptive to enable a reader to readily ascertain the estimated value reported and the rationale for that estimate.

4. Sales history - The appraisal must include a history and analysis of all prior sales of the subject property (one year for 1-4 family residential and 3 years for all others).

5. Revenues, expenses and vacancies - Appraisals of income properties must analyze and disclose current income, expenses and vacancies, and may not base value on estimated or projected income that cannot be supported by current market conditions.

6. Marketing period - The appraiser must use a marketing period that is reasonable under current market conditions.

7. Current market conditions and trends - must be analyzed and reported.

8. Deductions and discounts - all appraisals must include, among other values, an "as is" value, with deductions and discounts for holding costs, marketing costs, developer's profit, commissions, proposed improvements, etc.

9. Prohibited influences - appraisals must be performed without pressure from someone who desires a specific value, and must contain a statement that the appraiser's employment was not conditioned upon the appraisal producing a specific or minimum value.

10. Self-contained - The appraisal must contain sufficient supporting documentation to enable the reader to understand the appraiser's conclusions and opinion without referring to numerous other documents.

11. Legal description - the legal description of the subject property must be included, in addition to the description required in the USPAP.

12. Personal property, fixtures and intangibles - The appraisal must contain a separate assessment of personal property, fixtures, or intangible items that are attached to or located on real property.

13. Use of recognized appraisal approaches - the appraisal must address all three approaches to market value (direct sales comparisons, cost estimates, and income capitalization), and must explain how each approach was used. If one or more of these approaches is not used, the appraiser must explain the decision not to use that approach.

14. Unavailability of information - if information required by the regulation or by USPAP is not available, the appraiser must state why such information could not be obtained.

It may not always be practical or possible for the lending officer to determine whether a particular appraisal complies with all the requirements of the regulation. For that reason, every appraisal performed for the bank in connection with a transaction that is subject to this regulation must contain a certification by the appraiser, in writing, that the appraisal complies in all respects with the requirements of FIRREA and the USPAP. The USPAP certification must also state that at least one of the signers of the appraisal made a personal inspection of the property.

C. Appraiser Qualification Requirements

Under the regulation, each state must adopt standards and procedures for licensed and certified appraisers, including educational and examination requirements. The requirements for certified appraisers are more stringent than those for licensed appraisers.

D. Transactions Requiring a State-Certified Appraiser

1. Any transaction having a value (loan amount) of $1 million or more.

2. Any transactions having a value of $250,000 or more, except those secured by 1-to-4 family residential properties.

3. Any transaction having a value of $250,000 or more secured by 1-to-4 family residential property, where the appraisal will be "complex" (see below).

E. Transactions Requiring a State-Licensed or Certified Appraiser

1. Any transaction with a value of $100,001 to $249,999.

2. Any transaction with a value of $250,000 to $999,999 secured by 1-to-4 family residential property, where the appraisal will not be "complex."

The regulation defines a "complex" 1-to-4 family residential appraisal as one in which the property to be appraised, the form of ownership, or market conditions are atypical, for example:

* age of improvements
* architectural style
* size of improvements
* size of lot
* neighborhood land use
* potential environmental hazard liability
* leasehold interests
* other unusual factors

Under Federal law, a state-certified or state-licensed appraiser may not be excluded from consideration of an assignment solely by virtue of membership, or lack of membership, in any particular professional appraisal organization (e.g. M.A.I., S.R.A., etc.). Membership in such an organization may be considered, but may not be the only determining factor in accepting or rejecting an appraiser.

F. Appraiser Independence

1. Fee Appraisers

To insure appraiser independence, the regulation requires that fee appraisers must be engaged directly by the bank, not by the borrower, and must have no direct or indirect interest, financial or otherwise, in the property. The appraisal must be addressed to the bank, not to the borrower.

An appraisal prepared by an appraiser engaged directly by another regulated financial institution may be accepted, provided that the bank must adequately review the appraisal, document its review in writing, and find the appraisal to be in compliance with the regulation.

2. Staff Appraisers

Staff appraisers who are permanently employed by the bank must be free to exercise independent judgment and must not be supervised, controlled, or influenced by loan officers or collection officers. They must also have no direct or indirect interest, financial or otherwise, in the property.

In some circumstances, it may be necessary for a loan officer or director to perform an appraisal. For example, in a rural area, the only person qualified to perform the appraisal may be a loan officer, who could not be independent of the lending function. In such cases, loan officers may perform appraisal work only on loans in which they are not otherwise involved. When a loan officer or director performs an appraisal, the bank must insure that the appraiser is properly qualified as a licensed or certified appraiser, as appropriate, and that the appraisal report is adequate. An officer or director performing an appraisal must abstain from any vote or approval involving the property.

III. Virginia State Requirements

As of January 1, 1993, the Virginia Code effectively tracks the requirements of FIRREA and Regulation Y with respect to appraisal requirements.

The Virginia Code also permits certain types of real estate-secured loans, such as construction loans, to be excluded from the appraisal requirements, but only if the loan is made at terms not more favorable than if no lien on real estate had been taken. This is similar to the "abundance of caution" exclusion under Federal law. When such exclusions are appropriate, as in FHA Title 1 loans, the file must be documented clearly and completely to support the exclusion.

Under Federal Regulation (ECOA) and Virginia state law, if the borrower requests in writing a copy of an appraisal used in connection with an application for a loan to be secured by residential real estate, the bank must provide the borrower with a copy of the appraisal at no charge.

Virginia Loan Manual	General Section	12/92
	Real Estate Appraisal Policy	I 23.7

IV. Loans Not Requiring State Licensed or Certified Appraisers

For loans of $100,000 or less, we may continue to determine value by use of our short form NO-142, or drive-bys where permitted by specific loan policy.

V. Policy Guidelines

A. Fee appraisers must be approved by the appropriate committee of the bank.

B. Borrower usually pays appraisal fee.

C. Appraisal must indicate whether property is located in a flood hazard area, as identified by the Federal Insurance Administration of HUD by citing the appropriate flood map designation.

D. A limited (drive-by) evaluation is acceptable for home equity loans up to 70% of assessed value of residential real estate if loan amount is not more than $100,000 and total liens do not exceed $150,000. A full appraisal is required for all home equity loans over $100,000 or if total liens exceed $150,000.

E. Appraisals performed by outside approved appraisers must be addressed to the bank, not the borrower.

F. The bank's short form appraisal NO-142 may be used for loan amounts up to $100,000.

G. Generally, the industry standard residential appraisal report form (URAR/Freddie Mac 70/Fannie Mae 1004) will be acceptable for all 1-to-4 family residential properties, with such modifications as may be deemed necessary by the state licensed or state certified appraiser to certify compliance with FIRREA and USPAP.

APPENDIX A

Summary of Minimum* Appraisal or Evaluation Requirements

Transaction Value	Residential Non-Complex	Residential Complex	Non-Residential
$0-$100,000	NO-142 or Drive-by**	NO-142 or Drive-by**	NO-142
$100,001-$249,999	Licensed	Licensed	Licensed
$250,000-$999,999	Licensed	Certified	Certified
$1 Million or more	Certified	Certified	Certified

* These are the minimum requirements acceptable under Federal and State regulations and FVBI policy.

** Drive-bys are only acceptable where permitted by specific loan policy.

NATIONAL ASSOCIATION OF REALTORS®
STATEMENT FOR THE HEARING RECORD

SUBCOMMITTEE ON GENERAL OVERSIGHT, INVESTIGATIONS, AND THE RESOLUTION OF FAILED FINANCIAL INSTITUTIONS
of the
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

March 1, 1994

Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS ® (NAR) respectfully submits its comments to the Subcommittee on General Oversight, Investigations, and the Resolution of Failed Financial Institutions regarding modifications to appraisal rules for Federally related real estate transactions. We want to emphasize general support for the Federal financial institutions proposed appraisal rule but express our concern over raising the residential threshold to $250,000. In our opinion such and increase will harm state efforts to create an system of appraisal licensing and certification and undercuts Congressional intent for passing Title 11 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

NAR is the nation's largest trade association, representing all facets of the real estate industry including real estate brokerage, development, investment, management and appraisal. Approximately 15 percent of the Association's 750,000 membership are actively involved in the real estate appraisal profession. Consequently, the rule and the proposed modifications thereto have a direct impact on NAR's appraiser-members; they will also have a direct financial impact on the Association's membership as a whole in terms of affecting commercial and residential real estate transactions.

The NATIONAL ASSOCIATION OF REALTORS ® opposes increasing the appraisal threshold amount to $250,000 for residential properties. NAR supports raising the threshold amount to $250,000 for commercial loans.

Regulatory Agencies Should Bifurcate Appraisal "Threshold Levels"

The Federal financial institution regulators proposal would exempt from Title 11 appraisal requirements all transactions under $250,000. NAR opposes this proposed change for residential (single family 1-4) properties but supports the change for commercial real estate as explained below. NAR believes the threshold level for residential and commercial properties should be separately evaluated. There is little, if any, logic in setting one threshold amount for residential and commercial real properties since property evaluations and median prices vary substantially for both. The decision to lend on a residential property and a commercial purposes are based on differing evaluation methods. Commercial loans require extensive evaluation of the income stream of the property, the value of the underlying collateral, and commercial occupancy considerations. Residential loans are highly dependent on the value of the real estate since borrowers generally have little other accessible collateral to secure the loan. The September 1993 median price of a home was $107,200 for the United States based on data compiled by the NATIONAL ASSOCIATION OF REALTORS ®. With a $250,000 threshold, most residential

loans held by federally-insured financial institutions would escape the risk analysis and proper valuation provided in an appraisal.

Supports Higher Commercial Threshold

NAR supports raising the threshold level to $250,000 for business related loans in an effort to alleviate some of the problems associated with the availability of credit for small businesses. NAR supports the increase in the commercial threshold level to $250,000 because of the credit crunch for small business lending. Under current regulations, a borrower must get a formal appraisal if the commercial loan is valued at more than $100,000. This requirement often makes it impractical for small businesses to proceed with a loan request.

The change will also speed up loan processing due to the lack of licensed and certified appraisers in some locations and reduce appraisal delivery times by not requiring fully documented reports. The increased commercial threshold should reduce costs attributed to lengthy or fully documented reports, especially on lower commercial mortgage requests. Appraisals or evaluations are only one tool financial institutions should utilize in determining the risk of a commercial real estate project. Financial institutions should not rely solely on appraisals to make lending and refinancing decisions.

Residential Property Threshold Should Remain $100,000

The NATIONAL ASSOCIATION OF REALTORS® does not support the proposed amendment to raise the current minimum threshold level of $100,000 (below which the FDIC's appraisal regulations requiring the use of either a state licensed or certified appraiser would not apply) **to $250,000 for residential property.**

NAR has three major concerns with the threshold level for residential property being set at $250,000. First, the threshold level should remain at $100,000 for residential properties because it would further the purpose Congress passed Title 11 of FIRREA. In the preamble of the proposed rule, appraisals under the threshold were viewed as unnecessary because they impose significant costs without furthering the purposes of Title XI of FIRREA. This statement, as it applies to residential property, runs counter to the legislative history of FIRREA and fact. Factually, it has not been demonstrated that residential appraisals impose a significant cost or that there is presently a shortage of appraisers which has caused delays in obtaining a residential appraisal. As for the purposes of Title 11 of FIRREA, one purpose was to encourage state licensing and certification of appraisers. State appraisal commissions or boards operate largely on fees charged to licensed and certified appraisers. In most states, appraising is conducted by licensed appraisers who are generally limited to residential property appraisals. Raising the threshold amount to $250,000 for residential properties would remove incentives for persons to become licensed appraisers, resulting in a concomitant reduction of persons seeking an appraiser license. A sharp reduction in licensed appraiser fees would likely hinder state efforts in reviewing qualifications and experience of licensed and certified appraisers. This same result would not occur for commercial appraisers because those mortgage amounts are generally much higher than the $250,000 commercial threshold. Hence, there would remain incentives for individuals becoming certified appraisers.

Second, there also is the question whether the proposed rule would give a residential loan market advantage to federally insured financial institutions over other lenders who require licensed or certified appraisals. We believe there should not be an incentive for borrowers to forgo loans purchased by the secondary market. The secondary mortgage market has been developed in order to lend liquidity to the residential mortgage market. NAR is very concerned with any regulations adopted which on the surface seem harmless but in practice may damage the secondary mortgage market.

Third, if the proposed rule is adopted, we believe federal financial institutions may become the hiding place for residential real estate loans that cannot withstand a professional appraisal, or conform to typical quality directed underwriting standards. The major secondary mortgage market participants (Freddie Mac and Fannie Mae) presently require appraisals under their respective loan underwriting guidelines. The Veterans Administration and the Federal Housing Administration also require a licensed or certified appraisal on properties purchased in their respective programs. Estimates conclude that these four entities make-up 60 to 70 percent of the residential mortgage market. If the proposed rule were adopted, most of the remaining mortgages, which comprise nonconforming or high-risk properties, would be held in portfolio by federally-insured financial institutions. There are long-term dangers for federally-insured financial institutions holding mortgage loans which cannot stand-up under the scrutiny of an appraisal. Financial institutions serve as a vital link in the real estate transaction chain. Any damage to the health of the nation's financial institutions is a threat to the future health of real estate finance.

CONCLUSION

Obtaining an appraisal or an evaluation opinion is an integral part of real estate transactions. Regulations which may be unwarranted and overly burdensome cause an increase in the time or cost of appraisals and have the potential of great harm to the real estate economy. The NATIONAL ASSOCIATION OF REALTORS ® believe the proposed amendments should retain the $100,000 threshold level for residential loans and raise the level to $250,000 for commercial loans. We appreciate this opportunity to comment before the Subcommittee on General Oversight, Investigations, and the Resolution of Failed Financial Institutions.

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Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

April 21, 1994

The Honorable Floyd H. Flake
Chairman
Subcommittee on General Oversight,
Investigations and the Resolution of
Failed Financial Institutions
Committee on Banking, Finance
and Urban Affairs
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Attached is the Office of the Comptroller of the Currency's response to your follow-up questions from the real estate appraisal hearings of March 1, 1994. We appreciate the opportunity to further clarify the benefits that will accrue to both consumers and financial institutions upon finalizing this important, but complex rule. If my office can be of any further assistance, please do not hesitate to call on me.

Sincerely,

Susan F. Krause
Senior Deputy Comptroller
for Bank Supervision Policy

attachment

ADDITIONAL QUESTIONS FROM APPRAISAL HEARING – March 1, 1994

1. **Is a longer period of stability needed to assess the status of the implementation of Title XI before deciding whether or not to raise the threshold level?**

Congress granted the agencies explicit authority to establish a threshold for real estate appraisals consistent with safety and soundness in December 1992. Even before that date, however, the federal agencies had adopted thresholds.

The OCC, FDIC and OTS have had a $100,000 threshold in place since April 1992 while the Board of Governors of the Federal Reserve System has had that threshold in place since August 1990. We feel that our experience over this period of time is sufficient for an assessment of the threshold level.

Wc do not believe it is feasible for the agencies to conduct a definitive quantitative analysis that isolates the effect of obtaining Title XI appraisals for loans above and below the threshold on institutions' losses on real estate-secured loans. Many variables, such as changing market conditions and varying loan underwriting practices, may affect institutions' ultimate loss experience.

Consistent with statutory requirements, the agencies have carefully considered the effect of raising the threshold and determined that a $250,000 threshold level does not represent a threat to the safety and soundness of financial institutions. In making their determination, the agencies have taken into consideration the available data, comments received during the rulemaking, and relevant work of other governmental agencies.

We will review our experience with the $250,000 threshold just as we have reviewed our experience with the $100,000 threshold. If the increased threshold is determined to be causing safety and soundness problems, then we will reassess it.

2. **What have your regional offices stated about this proposed increase? Why have some of the OCC's senior bank supervisory personnel stated that the proposed "threshold may be too high for some smaller or new banks" and that there may be "limited additional exposure between $100,000 and $250,000?" Do these statements imply that safety and soundness is threatened?**

Based on the question, it appears you combined the responses from the OCC's survey of senior supervisory personnel on the proposed $250,000 threshold and the $1,000,000 business loan exemptions, and misinterpreted them.

Twenty senior OCC supervisory personnel were asked to provide, based on their experience, their opinion on whether the proposed increase of the appraisal threshold to $250,000 would have a material impact on bank safety and soundness. All 20 OCC respondents (District Administrators, District Directors for Analysis, District Directors for Regional Bank Supervision and Examiners-In-Charge of two Multinational Banks) stated that increasing the threshold to $250,000 would not pose a threat to the safety and soundness of national banks. In fact, three of the respondents advocated a higher threshold for regional banks, indicating that $350,000 - $500,000 or even $1,000,000 might be appropriate.

Two OCC survey respondents, however, did express professional concerns about smaller banks and start-up loans in conjunction with the exemption for business loans of $1,000,000 or less that do not depend on real estate for repayment. One respondent stated the business loan exemption should not apply to start-up loans and the other questioned the impact on smaller banks if the financial condition of the borrower subsequently deteriorated. The concerns raised by these two survey respondents involved the $1,000,000 business loan exemption, not the proposed increase in the threshold to $250,000.

It is important to explain how these concerns with the business loan exemption would be treated. Start-up loans likely could not qualify for this exemption. To use the exemption, the borrower's financial statement would have to be able to demonstrate that the company possessed the financial capacity to repay the loan from operations of the business. Lenders would be unlikely to grant an extension of credit to a new business when repayment of the loan was based on an unproven repayment capacity, simply to avoid obtaining a Title XI appraisal. In these

situations, lenders should reach the conclusion that the exemption would not apply and that a Title XI appraisal is necessary. Our examiners would reach the same conclusion when reviewing the loan during an examination.

The subsequent financial deterioration of a business borrower may impact any institution, not just smaller banks. Whether the institution had a Title XI appraisal or an evaluation at the loan's inception is not germane to the supervision of the loan at this point. The subsequent deterioration of the borrower's financial condition probably means that the loan's repayment source is more dependent upon real estate. At this point, the bank may need a Title XI appraisal.

3. **Under the proposal, will banks (particularly small and new ones) feel pressure to forego Title XI appraisals when they are not mandated?**

   We do not think so. Regardless of the threshold level, banks will continue to require appraisals when they believe they are necessary. All banks are required to develop an appraisal program that designates the kinds of real estate loans that need an appraisal instead of an evaluation. For example, each bank has its own "threshold" for loans that are complex or large relative to its portfolio. These are the kinds of lending relationships for which a bank may decide to get an appraisal, even if not required by regulation. Banks who underwrite residential transactions for resale to the secondary market obtain appraisals to comply with the secondary market's underwriting criteria.

4. **Is a dollar threshold amount the best way to require appraisals?**

   The best approach for requiring an appraisal would be one that allows an institution the flexibility to tailor a policy to fit its individual circumstances. However, a threshold does establish a clear "bright line" for institutions to use in developing their policies.

5. **What are the adverse effects if the level is not raised?**

The most adverse effect is that banks and borrowers will continue to be needlessly burdened by a rule that is overly restrictive. The motive for increasing the threshold is to remove unnecessary costs and delays for relatively small real estate loans. This is especially important for a real estate loan to a small- or medium-sized business where the repayment of the loan is dependent upon the successful operation of the business, not the real estate.

6. **What is your source of information concerning increased costs and delivery time as it pertains to appraisals? Have you conducted independent surveys? Have you talked to consumers?**

The OCC has received information concerning increased costs and delivery time for appraisals from bankers, trade associations and other interested parties in response to our three rulemakings. The American Bankers Association and the Government Accounting Office (GAO) conducted surveys on these issues, which we have also used in our assessment.

The OCC has also received and responded to numerous comments from consumers concerning the costs and delays of appraisals, and other related credit availability issues.

7. **Could this proposal generate enormous confusion for banks and examiners in determining whether or not sufficient information had been provided on an estimate of real property value?**

We have no reason to expect that confusion will result. We believe the proposal, by clarifying and expanding the exemptions, will eliminate much of the confusion that already exists.

8. **Are any of your bank examiners also appraisers?**

No, our examiners are not appraisers. However, they do have a working knowledge of real estate values in their geographical areas because of the nature of their job. They see a vast number of appraisals and evaluations because they analyze credit quality and underwriting practices in numerous

banks. This gives them a unique basis upon which to compare quality of products prepared by appraisers and evaluators.

Also, our examiners are trained to use discounted cash flow models and other financial analysis tools to assist them in analyzing the underlying assumptions used in preparing appraisals. Because of their training, analytical skills and on-the-job experience, they usually can detect consistently inflated or unrealistically low estimates of value of real estate and determine whether appropriate methods were used to derive values.

9. **Why is $250,000 the appropriate amount for exempting loans from a Title XI appraisal?**

Selecting an appropriate threshold is the most difficult aspect of this regulation. The OCC received suggestions that ranged from zero to $5 million. Our objective is to require appraisals prepared by licensed or certified appraisers for those transactions that pose the greatest threat to the safety and soundness of the banking system, or threaten federal financial or public policy interests. At the same time, we want to eliminate unnecessary costs and regulatory burden on consumers and the banking system.

The $250,000 threshold level exempts from Title XI appraisal requirements those transactions that have posed little risk to the financial system. While these loans are exempt from the more burdensome appraisal regulation, the lender still must support these extensions of credit using agency-issued evaluation guidelines.

Finally, it has been our experience that acquisition, development and construction real estate loans, which normally exceed $250,000, have been the most troublesome and caused the most losses to the banking system. This proposal continues to require Title XI appraisals on those loans. It has also been our experience that these loans, which are more complex and difficult to value, have been supported by appraisals.

10. **When do you plan to increase the threshold to $250,000?**

The OCC, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation and the Office of Thrift Supervision will jointly issued a final rule soon. The exact date is difficult to predict because each agency has to complete its own review process. Any increase in the threshold will be effective immediately upon issuance of the final rule.

11. **Many believe that insufficient data exist at this time to definitively determine the impact of the threshold on the deposit insurance funds and consumers, however, you believe that increasing the threshold would not result in more risk to safety and soundness. What is the basis for your decision?**

Consistent with statutory requirements, we have carefully considered the effect of raising the threshold and determined that a $250,000 threshold level does not represent a threat to the safety and soundness of financial institutions.

We believe that 1-4 family residential real estate loans will comprise the bulk of loans below the threshold. Estimating the value of loans of this size and type is not difficult because there are ample amounts of data available. Historical Call Report data also show that 1-4 family residential real estate lending is one of the lowest risk areas of banks' loan portfolios, as evidenced by the consistently low loan loss rates. With these loans lenders will be required to document the estimate of value with an evaluation. Therefore, based on this quantitative assessment, 1-4 family residential transactions will not pose a threat to the safety and soundness of the banking system.

We also believe, based upon our examining experience, that the type of real estate collateral supporting smaller commercial loans will be similar and will not be difficult to value without a Title XI appraisal. Our experience has been that the collateral is usually non-complex and that several comparables readily exist to use to establish the estimate of value. Bankers have informed us during the most recent and the previous comment periods, that loan losses on real estate loans below the threshold

are not related to the original estimate of value. Rather, the losses incurred result from economic or social problems, which the typical appraiser would not have been able to forecast.

Last, a nationwide survey of their senior examination staffs by each of the agencies indicates that banks or thrifts, except for a few isolated situations, did not fail or suffer significant losses as a result of appraisal problems with loans under $100,000. A substantial body of evidence provides strong reasons to believe that exempting loans between $100,000 and $250,000 from the appraisal requirement will not present materially greater risk than the prior exemption for loans under $100,000. The agencies believe that low loss experience with a $100,000 threshold provides justification for an increase in the threshold to $250,000.

12. **One of the reasons cited for increasing the threshold is that banks would get appraisals for most residential loans because of Fannie Mae and Freddie Mac requirements, however, others point out that the regulators are abdicating their statutory responsibility by relying on Fannie Mae and Freddie Mac, do you agree or disagree?**

We do not agree that exempting certain transactions from the requirements of the appraisal regulation is an abdication of our statutory responsibilities to government sponsored agencies, such as Fannie Mae or Freddie Mac. Under long standing agency procedures and the guidelines for real estate appraisal policies and review procedures issued before enactment of Title XI, bank personnel and others have long provided reliable evaluations of real estate collateral in connection with bank lending activities.

We feel that institutions will obtain an appraisal for their residential transactions when their underwriting criteria warrant one, even if not required by regulation. The fact that the secondary market requires Title XI appraisals for loans of all sizes results from the standardization that a secondary market requires to operate efficiently. We do not consider this requirement a justification for changing our rule, but rather one of many facts to take into account.

13. How should an institution's collateral protection be valued under the proposed rule, should loan-to-value be used?

The appraisal rule and the real estate lending guidelines issued pursuant to 12 C.F.R. 34 are not mutually exclusive. Banks are currently expected to establish underwriting standards, including loan-to-value limits. The function of an appraisal/evaluation is to estimate the value of collateral offered by a borrower to secure a loan.

14. What are the minimum standards for evaluations? Do borrowers have access to evaluations under your current regulations?

Banking Circular 225 (Revised), Real Estate Appraisal and Evaluation Guidelines, issued September 28, 1992, outlines OCC policy concerning evaluation standards. An evaluation does not need to meet all of the detailed requirements of an appraisal as set forth in 12 C.F.R. 34. However, file documentation should support the estimate of value and include sufficient information for an individual to fully understand the evaluator's analysis. The evaluation should describe the property and its location and discuss its use, especially if it is nonresidential. The evaluation should include the evaluator's calculations, supporting assumptions for the estimate of value and, if utilized, a discussion of comparative property values. An evaluation must be written, signed and dated, and include the preparer's name and address. To qualify, an evaluator must be capable of rendering unbiased estimates of value and must have real estate-related training or experience relevant to the type of property. The scope of an evaluation should correlate to the complexity of the transaction and type of real estate collateral.

As required by the Equal Credit Opportunity Act (ECOA/Regulation B) consumers have the right to receive a copy of whatever documents the lender uses to estimate the value of the real estate collateral in a loan secured by a dwelling. This means the consumer can always receive a copy of the evaluation or appraisal upon which the lender is basing the decision to extend credit. Under agency guidelines, that evaluation needs to contain sufficient information for the institution to make its credit decision.

15. **If evaluations are performed incompetently, what recourse is provided to the borrower?**

State courts have issued conflicting opinions on an appraiser's liability to a purchaser. Some states have ruled that the borrower does not have recourse to the appraiser. The ruling is based on the contractual business relationship that exists between the institution and the appraiser, not the purchaser and appraiser. Institutions are required by our appraisal regulation to order the appraisal or evaluation. Other states have ruled in favor of the purchaser.

The OCC has advised banks that they must monitor their appraisal and evaluation programs as a matter of prudent banking practice. This means that the bank should review the work of persons providing appraisals and evaluations to monitor their performance and take appropriate action to correct any problems. Inasmuch as a person conducting an evaluation for a bank could either be an employee, a contractor, or an agent of the bank, recourse to the bank may exist. However, since legal guidance is unclear on this issue relative to appraisals prepared by licensed and certified appraisers, we cannot provide a definitive answer to your question at this time.

The OCC can and will take strong action against national banks whose appraisal practices and programs permit faulty or fraudulent appraisals or evaluations to be used in support of any real estate related financial transaction.

16. **Based upon current examinations, who is performing evaluations? What impact does this have on the quality of evaluations?**

The OCC conducted an informal survey during the week of February 14, 1994. We contacted each of our districts and our multinational banking division and asked them to contact examiners currently conducting on-site examinations. The on-site examiners were asked to report back on several appraisal and evaluation related questions. Based on this source of information, we believe evaluations are being conducted by bank personnel, other qualified individuals and, in some states, licensed and certified appraisers.

There should be no deterioration in the quality of evaluations by raising the threshold to $250,000. Examiners surveyed in the latter part of the summer of 1993 replied that there was no deterioration in the quality of evaluations when the threshold was raised from $50,000 to $100,000. There also was no evidence of an increase in loan losses when the threshold was increased.

They also indicated that there should not be any deterioration in the quality of evaluations by raising the threshold to $250,000, since the same type of loan would be exempted by this higher threshold. There is also no reason to believe a bank would alter its loan underwriting criteria because the appraisal threshold is raised from $100,000 to $250,000.

17. In 1992, you issued guidelines for evaluations, do you plan to revise them?

Yes, we plan to revise our guidelines to reflect changes in appraisal requirements after we issue the final rule. The guidelines you mention were originally issued in December 1987 and subsequently revised in September 1992.

18. The Appraisal Standards Board (ASB) of the Appraisal Foundation has issued an exposure draft on "limited appraisals." Will you accept this as an alternative to Title XI appraisals?

Yes. The OCC supports the ASB's proposal and notified them of our support on January 5, 1994. We are awaiting their final action and continue to work with them.

The ASB proposal would recognize two types of appraisal assignments: complete and limited. The proposal would also recognize three types of appraisal reports: self-contained, summary and restricted. It is the OCC's opinion that all six proposed appraisal reports would be "Title XI" appraisals and would comply with our proposed appraisal regulation. The OCC understands that the ASB will issue guidance soon on the suggested use and application of various reports for different types of loans.

For example, we would expect that a limited appraisal assignment invoking use of the Departure Provision and resulting in a restricted report, would not be an acceptable appraisal report to underwrite a $50 million high rise office building or hotel complex. However, it might be used to supplement and confirm a market value in an existing report. The OCC expects to provide guidance to national banks on this subject in its planned revision of the appraisal and evaluation guidelines.

Banks will continue to be responsible for determining which type of appraisal report is appropriate to support a bank's loan underwriting criteria for its real estate loans, based on the risk, exposure, size and complexity of the individual loan. The OCC will review a bank's decision process during its examination.

19. **If the rule is approved do you think it is a sound business practice for banks not to obtain Title XI appraisals? Conversely, if banks plan to continue to get appraisals despite the rule, as some suggest, what then, is the purpose of the increased rule? Who does it help?**

We encourage national banks to obtain appraisals by certified or licensed appraisers when it is appropriate for that particular transaction.

The use of appraisals prepared by certified and licensed appraisers would not significantly enhance the reliability of the estimates of value of real estate transactions that are exempt from Title XI requirements. For many transactions below $250,000, the process of estimating the value of real estate collateral is usually straightforward. Typically, these are transactions for which evaluations based on sales of comparable properties or a limited analysis of income generated by the property can be used.

If banks do choose to get Title XI appraisals for loans under the threshold level, it will be a business decision based on their own underwriting standards and/or secondary market considerations. Therefore, raising the threshold should relieve some regulatory burden for banks and thrifts.

20. What are the specific problems the banking industry is having as a result of the current threshold level which will be solved by raising the level?

The most commonly cited problems are: obtaining timely appraisals, shortage of licensed/certified appraisers, and costs to borrowers. These concerns are more prevalent in rural areas and for loans involving small businesses.

21. Title XI ensured that appraisers would be held accountable through mandatory licensing. Will the same accountability be required of evaluators through mandatory licensing?

Persons performing evaluations will not be required to be licensed. It is a bank's responsibility to ensure that persons performing evaluations are impartial and have the level of expertise necessary to evaluate real estate, consistent with our guidelines. As the regulator of national banks, we have enforcement tools that we can use to ensure that banks obtain evaluations and appraisals that are performed in accordance with safety and soundness standards. We can take formal action, such as an order to cease and desist, against any institution that is behaving in an imprudent manner.

Additionally, we can take actions against individuals, including appraisers and persons performing evaluations when warranted. These actions can range from issuing cease and desist orders and assessing civil money penalties to barring individuals from working for any financial institutions in the future in more egregious cases.

Our enforcement actions are more substantive and farther reaching than states can impose through their licensing function. For example, states cannot prohibit individuals whom they have disbarred from obtaining licenses in other states.

Because they are regulated institutions, banks have a strong incentive to ensure that they contract with capable persons to perform high quality real estate evaluations. Therefore, regardless of licensing requirements, we believe there will be equal accountability for evaluators and appraisers.

22. **The proposed rule seems to solve problems in a geographical sense rather than a national perspective. Is this a geographical issue as opposed to a nationwide problem?**

We feel that the proposal provides additional flexibility to all financial institutions nationwide. The OCC conducted a nationwide survey during early February 1994 to determine if banks were using the flexibility provided by the appraisal regulation and obtaining evaluations, in lieu of appraisals. The examiners were contacted during ongoing, on-site examinations and asked to query bank management on several appraisal and evaluation questions that related to cost, time delays and persons completing evaluations.

The results of this survey did indicate that, if the threshold limit is raised to $250,000, rural banks will be more likely to conduct evaluations, because they are less likely to sell those loans to the secondary market. However, most institutions indicated that the greatest benefit should accrue to small- and medium-sized businesses across the country, because an appraisal fee can range up to 5 percent of the loan amount.

23. **What safeguards should be put in place to ensure that an industry of evaluators will not be created by the proposal?**

It is not our intent to create another professional designation. Qualified persons, who did not call themselves appraisers, were evaluating real estate collateral for financial institutions before Title XI was passed. We feel that the banks should have the discretion, when consistent with safety & soundness, to use persons who can render a competent estimate of value that meets a particular institution's needs.

The OCC's regulations do not prohibit national banks from using licensed and certified appraisers to perform evaluations. We believe that for a substantial number of exempt transactions (for example, 1-4 family residential transactions that an institution may plan to sell to the secondary mortgage market) national banks will obtain appraisals by licensed or certified appraisers. Several commenters noted that lenders will use licensed and certified appraisers for many transactions even when they are not required by regulation.

24. Appraisals and evaluations are intended to be estimates of market value, to what extent do evaluations differ from appraisals in terms of quality? Has any study been conducted on whether appraisers have done a good job?

Based on loan loss experience that national banks regularly report to us for 1-4 family residential transactions and farm real estate loans, we believe that the quality of estimates of value provided by appraisals is not materially different from estimates provided by evaluations for loans of $250,000 or less.

Based on our examining experience, we also believe that the quality of estimates of value for real estate collateral supporting smaller commercial loans will be comparable. Our experience has been that this collateral is usually non-complex and that several comparables readily exist to use to establish the estimate of value. Bankers have informed us during the most recent and the previous comment periods that loan losses on real estate loans below the threshold are not related to the quality of the original estimate of value. Rather, the losses incurred generally result from economic problems that the typical appraiser would not have been able to forecast.

To our knowledge, no one has ever published a systematic study on the work products of an individual appraiser or the appraisal industry as a whole.

25. In your written testimony, on page 7, you note that small to medium size businesses will benefit from this proposed increased threshold. Could you elaborate on what you mean by benefits to the business, in particular with the arguments of safety and soundness?

Our surveys indicate that appraisal fees can be as high as 5 percent of the loan amount, whereas an evaluation should be less expensive to obtain. For a small business, this can be a substantial sum of money — money that could otherwise be used by the business to purchase inventory, pay accounts receivable, etc.

As discussed in my written testimony, we do not believe the proposed increase in the threshold will threaten the safety and soundness of the banks we supervise. Our conclusion is based upon our examining experience, reviews of historical losses, and comments we have received from bankers.

25a. Does it make more sense for the small business to require licensed/certified appraisals in order to protect his business? In other words, why would a business or bank take the risk?

An appraisal that is prepared as part of a lending transaction is not prepared for the benefit of the borrower. It is used by the lender to determine the value of the real estate being offered as collateral for a loan. Lenders must obtain their own appraisals -- they cannot use one prepared for the prospective borrower. Therefore, there is no risk to a borrower if an evaluation is used instead of an appraisal. The primary difference a borrower may see is that the time necessary to prepare an evaluation and its cost are less than if an appraisal is required. A borrower is entitled to receive either document if their dwelling is used as collateral for the loan.

If a bank decides a particular loan transaction poses sufficient risk that it wants to obtain a Title XI appraisal even if it is not required, then of course it will do so. But we envision that many business loans under $250,000 will be noncomplex transactions, where the bank will conclude that an evaluation will provide a satisfactory estimate of value.

26. Describe the evidence showing that the current federal requirements for appraisals by state licensed or certified appraisers impedes credit in residential mortgage lending?

In the proposed rule, the OCC asked commenters to respond to specific questions concerning the effect of proposed changes to the appraisal regulation on credit availability. Only about 1 percent of the commenters specifically addressed these questions. Those who did respond, by a two to one margin, thought the increased threshold would increase credit availability. We believe the majority of loans under the $250,000 threshold are loans to acquire or refinance 1-4 family residential properties. Therefore, the information we do have indicates that credit for residential

mortgage lending would be more readily available with the increased threshold.

The OCC also asked commenters to tell us whether they sold their loans to the secondary mortgage market, and whether those loans still required appraisals. Again, very few commenters responded to these specific questions. However, several of the commenters who responded to this question stated that they sold none of their loans to the secondary mortgage market and would be able to use evaluations in place of appraisals. Borrowers using these lenders may find improved credit availability because of reduced loan costs and a shorter time between loan application and approval.

27. **American taxpayers have their own tax funds at risk when home mortgages are made by insured financial institutions because the federal deposit insurance funds underwrite the credit risks taken by banks when they make residential mortgage loans. Several other governmental and quasi-governmental entities also have funds at risk in home mortgages made by financial institutions. Fannie Mae and Freddie Mac purchase mortgages; FHA and VA directly guarantee or insure residential mortgage loans; and the Federal Home Loan Banks advance funds to institutions collateralized by residential mortgage loans. These other entities are experienced investors in residential mortgages. None of these entities agree with you that it is prudent to dispense with the appraisal requirement as your regulations propose to do. To the contrary, all these other investors with funds at risk in home mortgages believe that it is prudent to require appraisals. Please explain the difference in opinion between these entities and you regarding the prudence of requiring appraisals to help protect funds that investors, such as the American taxpayer, have at risk in home mortgages made by insured financial institutions.**

The appraisal requirements of the secondary mortgage market agencies serve a specific purpose, different from that of the banking agencies' rules. Loans purchased or guaranteed by Fannie Mae, Freddie Mac, GNMA or other government entities must meet certain pre-established standard criteria to be packaged and sold as securities. This standardization allows these government and quasi-government entities to issue a security prospectus and make certain representations and warranties about the underlying loans to prospective investors. This standardized approach,

which allows the loans to be packaged and sold as an investment, allows Fannie Mae, Freddie Mac, etc. to market their securities anywhere.

Some of the refinancing programs, such as those sponsored by VA, do not require appraisals when existing loans are refinanced. Instead, they rely on a certification of value (an evaluation) by the lender that the property's value has appreciated or at least not declined in value. (The lender who provides this certification is the same individual who is supervising loans that a bank is retaining in its portfolio.) These refinancing programs demonstrate that these government and quasi-government entities acknowledge there are times when an appraisal is appropriate and times when an evaluation is appropriate.

The banking agencies, on the other hand, take the approach of differentiating between classes of real estate loans with different loss rates. Since 1991 (the first year such data was available) banks' loan loss experience on residential real estate loans has been approximately 0.2%. Therefore, we do not believe safety and soundness considerations require Title XI appraisals be conducted on all residential mortgage loans below $250,000.

28. **As I understand your proposed regulations, they permit and even encourage banks to use non-licensed, non-certified and otherwise non-qualified employees to express an opinion, in accordance with no standards whatsoever, on the value of home mortgage collateral under your proposed $250,000 threshold amount, and also collect from home buyers an unregulated and unsubstantiated fee for doing so. Do you think that this is sound social policy? Sound economic policy? Please explain.**

Your question puts forth three assumptions that I would like to address. First, the question assumes that only licensed or certified appraisers could be qualified to express an opinion of value on a residential mortgage transaction. While licensed or certified appraisers may be qualified to perform evaluations, there is no evidence these appraisers are the only persons that can render a competent estimate of the value of real estate for exempt transactions. The OCC's guidance on real estate appraisals and evaluations lays out the appropriate criteria for selecting a person to conduct an evaluation.

Second, your letter assumes that evaluation standards do not exist. The OCC issued Real Estate Appraisal and Evaluation Guidelines to banks on December 21, 1992. One section of this guidance is devoted solely to Evaluation Standards. This document superseded the OCC's Real Estate Appraisal guidelines issued on December 21, 1987.

The proposed regulation provides a regulated financial institution flexibility to decide which type of valuation product is needed for a transaction -- an evaluation prepared according to agency guidance or a Title XI appraisal prepared in accordance with the agency's appraisal regulation. The agency's evaluation guidance provides the appropriate criteria for selecting a person to conduct an evaluation, as well as evaluation standards for this person to use.

Requiring institutions to procure the services of a licensed or certified appraiser to prepare evaluations or Title XI appraisals for exempt transactions could impose significant additional costs on lenders and borrowers without significantly increasing the safety and soundness of the transactions. However, the agencies' regulations do not, as suggested by some commenters, prohibit regulated institutions from using licensed or certified appraisers to prepare evaluations. Nor do the regulations prevent regulated institutions from obtaining Title XI appraisals for exempt transactions.

Third, your question states that a home buyer will pay an unregulated and unsubstantiated fee for an evaluation product. Appraisal fees are not regulated by the government and evaluation fees won't be either. The marketplace will establish an appropriate fee level for appraisals and evaluations. To remain competitive, banks will ensure that the cost to a consumer for an evaluation is commensurate with the complexity of the real estate transaction. A survey conducted by the OCC in early February 1994 determined that when a bank obtains an evaluation rather than an appraisal, costs and time delays in closing the loan are reduced by up to approximately 50%.

Banks have historically validated the quality and reliability of any evaluation product during their loan underwriting process. Banks will continue to follow their underwriting process, whether they are validating an appraisal or an evaluation, to ensure that their real estate loans are safe, sound and prudent.

Disclosure of the evaluation product that supports a real estate-related financial transaction for a bank is covered by both the Real Estate Settlement Procedures Act (RESPA) and Equal Credit Opportunity Act (Reg B). We will encourage its disclosure early in the loan application/underwriting process. Our examiners check for compliance with these laws; and also review a bank's compliance with our appraisal and evaluation guidelines during an examination.

29. **I understand that you based your proposed threshold increase at least partially on the premise that there is an inadequate supply of state-licensed or -certified appraisers. Please provide the factual details substantiating this premise. In addition, please explain why currently existing exemptive procedures such as those provided through FFIEC do not suffice to solve the problem of any actual inadequacy in the supply of appraisers as provided in the requested factual details.**

The OCC did not propose to increase the appraisal threshold based on a reported shortage of licensed or certified appraisers.

In response to our latest proposal to increase the appraisal threshold the OCC did receive comment letters from rural and farm banks that describe the shortages of appraisers and delays they are experiencing with obtaining appraisals. Their comments discuss the difficulties they face to get out-of-area appraisers to come to their locations. They also comment on the increased costs and time delays associated with receiving the final appraisal product. In some cases, the nearest certified appraiser was reported to be 75 - 150 miles away.

However, based on comment letters in response to our appraisal regulation proposals, and letters and telephone calls from appraisers complaining about not being able to find enough work in urban areas, one can reasonably assume that an adequate supply of appraisers exists in urban areas. The comment letters also indicate that residential appraisers are in ample supply.

The FFIEC Appraisal Subcommittee has reported that there are approximately 80,000 licensed and certified appraisers; however, no one has analyzed how much of this 80,000 number represents duplications because of state licensing and certifying requirements. Furthermore, no one has determined if there is a reasonable geographical distribution of licensed and certified appraisers.

The OCC cannot speculate why banks do not use the current exemptive procedures available through the FFIEC to solve the reported lack of available appraisers.

Office of Thrift Supervision
Department of the Treasury
Director
1700 G Street, N.W., Washington, D.C. 20552 • (202) 906-6590

March 30, 1994

The Honorable Floyd H. Flake
Chairman
Subcommittee on General Oversight,
Investigations and the Resolution
of Failed Financial Institutions
Committee on Banking, Finance
and Urban Affairs
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Please find enclosed a response for the record to the follow up questions submitted in conjunction with the March 1, 1994 hearing.

If I may provide further information, please do not hesitate to contact me.

Sincerely,

Jonathan L. Fiechter

Jonathan L. Fiechter
Acting Director

Enclosure

FOLLOW UP QUESTIONS FROM THE MARCH 1, 1994 HEARING

(Q1) What are the adverse effects if the threshold is not raised?

(A1) The proposed increase in the threshold would decrease the time and cost of obtaining a real estate secured loan, thereby increasing credit availability to many borrowers, especially small- to medium-sized businesses. If the Office of Thrift Supervision (OTS), Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and Federal Reserve Board (the Agencies) do not raise the threshold, these benefits would not be available to lenders, small businesses and consumers.

(Q2) Some of your district offices have said that appraisals alone did not lead to significant losses -- deficient loan underwriting was also a major contributor. An appraisal is one of several factors in the underwriting process, however an independent appraisal is the linchpin for sound underwriting, so how can you separate the two? -- a bad appraisal does lead to a bad loan. So if you can separate the two (as you appear to do in the OTS Regional Staff Real Estate Appraisal Survey) can you prove that inadequate appraisals under $250,000 have not placed undue risk on consumers, taxpayers and financial institutions?

(A2) Real estate lending decisions are not based primarily on the value of the collateral but, rather, on the likelihood that the borrower will repay the loan as determined by: (i) the character, overall financial condition, resources and credit history of the borrower; (ii) the prospects of support from any financially responsible guarantors; and (iii) the nature and degree of protection provided by the cash flow and value of the underlying collateral. It is in this last area -- the value of the underlying collateral -- that an appraisal plays an important role. A good appraisal does not necessarily lead to a good loan if the willingness and ability of the borrower to repay the loan has not been appropriately evaluated.

Our supervisory experience indicates that loans at or under $250,000 have not, in general, historically exposed thrift institutions to significant risk. We believe that most loans that are less than $250,000 will be home mortgage loans, which traditionally have been one of the safest components of a thrift's portfolio.

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(Q3) You state in your written testimony that:

> "[T]he real estate appraisals that we now require may not always add to the safety and soundness of the credit decision or may prove so expensive as to make a sound small- or medium-sized business loan uneconomical."

Are you suggesting that safety and soundness may have already been compromised with the decision to require appraisals in certain circumstances? Please explain.

(A3) OTS is not suggesting that safety and soundness may have already been compromised with the decision to require appraisals in certain circumstances. Rather, we believe that the safety and soundness of certain transactions can be satisfactorily underwritten without a formal appraisal. In such cases, the appraisal does not improve the quality of the loan, but does add to the cost of the loan and delay the transaction. For some small- or medium-sized business loans, the added cost of the appraisal (which can be as much as 5% of the loan balance) can make the loan closing fees too expensive for the borrower to proceed with the loan.

(Q4) What would be your recommendations to the secondary market, GSEs, regarding their practice to require certified appraisals? - Would you suggest that they also reform their requirements to be consistent with the regulators?

(A4) OTS would not suggest that the secondary market government sponsored enterprises (GSEs) reform their requirements to be consistent with the agencies' regulations. Secondary market underwriting requirements were established to standardize mortgage loan documentation to make mortgage loans more homogenous and thus facilitate secondary market transactions.

(Q5a) In your written testimony, on page 8, you note that thrift institutions that are considered "problem institutions" would be required to meet the current threshold. What is your rationale for creating a two-tiered system for appraisals?

(A5a) OTS believes that well-run thrifts should be given greater flexibility in managing their operations than troubled or problem thrifts. Given the overall concentration of real estate-related transactions in the thrift industry, OTS believes that a problem thrift or a thrift in troubled condition will, in general, have real estate-related asset quality problems. Thus, OTS believes it is appropriate to require problem thrifts or thrifts in troubled condition to continue to obtain a Title XI appraisal for loans over $100,000. A Title XI appraisal may mitigate the risk of other underwriting deficiencies at these institutions.

(Q5b) What would you consider a "problem" institution?

(A5b) The OTS definition of a problem thrift or a thrift in troubled condition is an institution that has a composite rating of 4 or 5, has failed one of its regulatory capital standards, or is otherwise designated a problem institution by its Regional Director.

(Q6) In what way have the costs [of appraisals] increased? In what way have the benefits decreased? Please quantify the increases and decreases.

(A6) Based on anecdotal evidence and the agencies' experience with the threshold, the benefits to safety and soundness provided by appraisals are not sufficient to outweigh the cost for <u>some</u> transactions such as smaller loans, renewals and refinancings, and small- to medium-sized business loans where the repayment of the loan does not primarily come from income derived from the sale of, or rental income of, real estate. For such loans, including single family residential mortgages, the ability of the borrower to repay the loans is paramount. In some cases, particularly with regard to small- to medium-sized business loans, the added cost of the appraisal can make the loan uneconomical for the borrower.

It is important to note that if the agencies adopt in final form the proposed rule changes, those transactions that caused the greatest problems in the thrift industry in the 1980s -- acquisition, development and construction loans and large commercial real estate loans -- will continue to be required to have appraisals.

Questions
Page 4

(Q7) Based on proposed regulatory guidelines will an evaluation provide accurate information needed by banks to properly assess the true value of property?

(A7) OTS believes that, for those transactions for which we proposed to require an evaluation rather than an appraisal, the evaluation will provide accurate information needed by a financial institution to properly assess the value of a property and that the information provided in a Title XI appraisal that is not included in an evaluation will not increase the safety and soundness of the transaction. Furthermore, lenders are often as familiar with property values in their local lending area as appraisers. This is particularly true for smaller institutions and those operating in rural areas. Also, loans on smaller properties generally do not present as complicated valuation problems as larger properties. Finally, for single family home loans, we believe that lenders will access and utilize the same information to prepare evaluations as appraisers would use.

(Q8) In proposing the increased threshold to $250,000 you did not wait for the results of the GAO's study to inform your decision. In light of the relevance of the GAO study to your ability to reach an informed decision about the appropriate level of the threshold, please explain why you decided to act without the benefit of this information, particularly since Congress indicated that it considered this information relevant to proper use of your discretion in raising the threshold.

(A8) As we stated in the Interagency Policy Statement on Credit Availability issued March 10, 1993, in response to a Presidential initiative on credit availability, the agencies identified a need to re-examine their existing appraisal rules to make certain that the threshold level below which formal appraisals are not needed are reasonable. The agencies believe it is appropriate to proceed with the increase in the appraisal threshold because it will facilitate credit availability. The agencies are cooperating with the GAO by providing information that it may use in preparing its studies. Furthermore, the GAO stated in its September 1993 study on regulatory impediments to small business lending that appraisal regulations can be safely modified when they apply to real estate collateral taken as a traditional part of small business lending.

(Q9) On page 8 of your written testimony you state that many of the 36 thrifts which commented opposed the threshold increase "because they believed that it would not significantly benefit their operations and could potentially increase the riskiness of thrifts that are not well run." In light of this, why are you advocating the proposal? Do you think the proposal is sound economic policy? Does the thrift industry think the proposal is sound economic policy? Is a "problem institution" the same as one that is "not well run"? Please explain any differences.

(A9) The OTS is advocating this policy to facilitate credit availability, particularly for small- to medium-sized businesses. Since economic growth, particularly job growth, is fueled primarily by small- and medium-sized businesses, credit availability to those borrowers is particularly important. The increase to the threshold is part of a program to ensure that regulatory policies and practices do not needlessly stand in the way of lending. To address the potential increase of riskiness of thrifts that are not well run, the OTS, as a matter of policy, intends to require problem thrifts and thrifts in troubled condition to continue to obtain appraisals for loans above $100,000. A problem thrift or a thrift that is in troubled condition will be a thrift that is not well run. For these reasons, we believe that the proposal is sound economic policy. As indicated by the comment letters, the thrifts that commented on the proposal were divided on whether they agreed with the proposed changes to the appraisal rule.

RTC

RESOLUTION TRUST CORPORATION

Resolving The Crisis
Restoring The Confidence

April 15, 1994

Honorable Floyd H. Flake
Chairman
Subcommittee on General Oversight,
Investigations, and the Resolution
of Failed Financial Institutions
Committee on Banking, Finance
and Urban Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for your letter of March 21, 1994, enclosing written questions in connection with your Subcommittee's hearing on appraisal issues held on March 1.

I am pleased to enclose responses prepared by Mr. Thomas J. Inserra, RTC Chief Appraiser, for inclusion in the record of the hearing.

We hope this information is of assistance to you. If you have any questions, please let me know.

Sincerely,

Peter E. Knight
Director
Office of Governmental Relations
(202) 416-7314

Enclosure

801 17th Street, N.W. Washington, D.C. 20434

SUPPLEMENTAL INFORMATION TO BE ADDED TO THE MARCH 1, 1994 TESTIMONY OF THOMAS J. INSERRA, RTC CHIEF APPRAISER

Q1. Please provide a copy of any data, findings or surveys that you or the RTC has gathered or conducted relevant to the proposed regulations to increase the threshold for required state licensed or certified appraisals.

A1. In response, the RTC is supplying the following information:

A) Three polls of RTC staff appraisers regarding: The role that appraisal abuses may have had in contributing to the failure of Savings & Loans; and two surveys regarding appraisal fees (Attachments #1, #2 and #3);

B) Information supplied by the Savings and Community Bankers of America regarding the sale of loans on the secondary mortgage market (Attachment #4); and

C) Various RTC statistical reports, which were gathered and analyzed in preparation for the appraisal de minimis hearing including: (1) RTC Contracting Analysis report and appraisal fee pie charts; (2) Amount of RTC assets securitized; (3) Asset Composition Reports with loan counts dated February 14, 1994; (4) GAO study on Recoveries on Asset Sales; and (5) Loan portfolio reports as of 12/31/93 (Attachments #5 through #9).

Q2. What are your conclusions, views and opinions relating to the impact of the proposed regulations on the safety and soundness of insured institutions and/or on the federal deposit insurance funds?

A2. The RTC has not analyzed the impact of the proposed regulations on the safety and soundness of insured institutions and/or on the federal deposit insurance funds. Accordingly, we have no opinion regarding what effect, if any, the proposed regulations would have on insured institutions and the federal deposit insurance funds.

Q3. Have the appraisal regulations in FIRREA contributed to a stronger banking industry?

A3. Yes, we believe that Title XI of FIRREA has helped the banking industry by improving appraisal quality and appraiser accountability, which has resulted in improved financial institution safety and soundness and reduced loan credit risk. For the first time, uniform appraisal standards now exist which create a single standard to measure appraiser and financial institution compliance. Also, in order to obtain appraisal

licensing, appraisers have taken many courses and seminars including a required course in professional ethics. Since the passage of FIRREA, RTC staff review appraisers have noticed a steady improvement in overall appraisal quality. Finally, financial institutions, along with federal and state agencies now have a mechanism in place (state appraisal licensing boards) to police the appraisal profession.

All of these factors have contributed to an overall improvement in appraisal quality, increased appraiser accountability, improved financial institution credit risk management, and improved liquidity.

Q4. *What would be your recommendations to the secondary market, GSEs, regarding their practice to require certified appraisals? Would you suggest that they also reform their requirements to be consistent with the regulators (OCC, OTS, FDIC, FRB)?*

A4. At the present time, the secondary mortgage market seems to have already decided that they will not change their appraisal requirements, despite the position of the federal regulators. This would seem to imply that despite the costs of appraisals, the GSEs believe that their overall profitabili , and ability to sell loans in the secondary market will be enhanced by continuing to obtain appraisals for assets below $250,000, even if not required by law.

We believe that the secondary mortgage market has reached its own conclusions on this issue. However, regulators might want to review the GSEs' position on this matter.

Q5. *On page 4 of your written testimony, you state that the RTC is not experiencing any problems with appraisal delays and you indicated "appraisal fees for residential property have remained relatively flat while fees for commercial real estate have notably declined over the past 12 to 18 months." In light of this, why do you think the banking industry and the regulators base the proposed threshold increase at least partially on the premise that there is an inadequate supply of licensed appraisers and increasing appraisal fees?*

A5. The RTC's experience of stable to declining appraisal fees would seem to contradict information supplied by the banking industry. However, there may be a good explanation. As you know, the RTC testified that several years ago, we did experience a short-lived increase in appraisal fees and delays in obtaining appraisals. Perhaps the banking industry was referring to that timeframe, or perhaps some banks have accurately reported an increase in appraisal fees, but those increases are attributable to some reason other than a shortage of appraisers. For example, the Washington Post regularly contains advertisements from lenders offering free appraisals to borrowers. Those appraisals may be free to the consumer, but the appraisal costs would need to be absorbed by the lender, thus significantly increasing their appraisal costs.

ATTACHMENT I.

RTC DE MINIMIS POLL

FEBRUARY 17, 1994

I. Total Number of RTC Staff Review Appraisers: 26

II. Number responding to Survey: 26

III. **Based on my RTC experience, it is my professional opinion that faulty appraisals or the lack of appraisals have had the following impact on Savings & Loans controlled by the RTC:**

Faulty appraisals or the lack of appraisals have:

IIIa. 0 Not contributed at all to the failure of S&Ls.
IIIb. 5 Somewhat contributed to the failure of S&Ls.
IIIc. 18 Meaningfully contributed to the failure of S&Ls.
IIId. 3 Greatly contributed to the failure of S&Ls.

IV. **Based on the representative sample of RTC institutions that I am familiar with, I would estimate that faulty appraisals or the lack of appraisals contributed to the failure of:**

IVa. 0 No S&Ls at all.
IVb. 1 Less than 5% of the failed S&Ls assigned to the RTC.
IVc. 2 5-25% of failed S&Ls.
IVd. 13 25% to 50% of failed S&Ls.
IVe. 4 50% to 75% of failed S&Ls.
IVf. 6 More than 75% of failed S&Ls.

V. **Considering S&L losses attributable to real estate loans below $250,000, the role that appraisals may or may not have played in these losses, and the costs associated with obtaining appraisals for loans below $250,000, I believe that it:**

Va. 0 Believe it would be in RTC's best interest to increase our appraisal threshold level from $100,000 to $250,000.

Vb. 26 Believe it would not be in RTC's best interest to increase the appraisal threshold level from $100,000 to $250,000.

ATTACHMENT II.

RTC APPRAISAL FEE SURVEY

March 23, 1993

1. Residential appraisal fees have:
   _____ Increased by about _____%
   _____ Decreased by about _____%
   _____ Remained about the same

2. Residential delivery times have:
   _____ Increased by about _____%
   _____ Decreased by about _____%
   _____ Remained about the same

3. Overall, residential appraisal report value accuracy has:
   _____ Generally improved
   _____ Generally declined
   _____ Remained about the same

4. Income producing & land appraisal fees have:
   _____ Increased by about _____%
   _____ Decreased by about _____%
   _____ Remained about the same

5. Income producing & land appraisal delivery times have:
   _____ Increased by about _____%
   _____ Decreased by about _____%
   _____ Remained about the same

6. Overall, income producing & land appraisal report value accuracy has:
   _____ Generally improved
   _____ Generally declined
   _____ Remained about the same

SUMMARY OF MARCH 23, 1993 SURVEY RESULTS

1. A majority of the RTC offices (50%) believed that residential appraisal fees had been stable; The remaining believed that fees had either remained stable or had increased by less than 20%.

2a. Two-thirds of the offices reported no delays in residential delivery times.

2b. Two offices (Kansas City and Denver) reported some residential appraisal delays.

3. Two-thirds believed appraisal quality has improved while the remaining one-third believed quality is the same, and no one believed quality has declined.

4. All RTC offices believed appraisal fees for income producing property has either remained the same or declined. Fees that had declined had dropped 10 to 40%. The only exception is the Washington DC, Virginia, Maryland area where fees may have increased by 5 to 10%.

5. Five-sixths of the RTC offices indicated non-residential appraisal fees had been stable or had declined.

6. Five-sixths of the offices believed non-residential appraisal quality has improved.

ATTACHMENT III.

RTC APPRAISAL FEE SURVEY

May 10, 1993

1. Residential appraisal fees have:
   _____ Increased by about _____%
   _____ Decreased by about _____%
   _____ Remained about the same

2. Residential delivery times have:
   _____ Increased by about _____%
   _____ Decreased by about _____%
   _____ Remained about the same

3. Residential appraisal quality:

   A. Estimate the percentage of appraisal reports which pass USPAP on the first submission. _____%

   B. Of those residential appraisals that do not pass USPAP on the first submission, what percentage of report inadequacies or errors are due to either a significant flaw or a large number of minor infractions - which cast doubt on the final value conclusion and overall reliability of the report? _____%

   C. Of those residential appraisals that do not pass USPAP on the first submission, what percentage of those ultimately are corrected to an acceptable level? _____%

   D. Overall, residential appraisal report conformance with USPAP has:
      _____ Generally improved
      _____ Generally declined
      _____ Remained about the same

   E. Overall, residential appraisal report value accuracy has:
      _____ Generally improved
      _____ Generally declined
      _____ Remained about the same

4. Income producing/land appraisal fees have:
   _____ Increased by about _____%
   _____ Decreased by about _____%
   _____ Remained about the same

5. Income producing/land appraisal delivery times have:
   _____ Increased by about _____%
   _____ Decreased by about _____%
   _____ Remained about the same

6. Income producing/land appraisal quality:

   A. Estimate the percentage of appraisal reports which pass USPAP on the first submission. _____%

   B. Of those income producing/land appraisals that do not pass USPAP on the first submission, what percentage of report inadequacies or errors are due to either a significant flaw or a large number of minor infractions-which cast doubt on the final value conclusion and overall reliability of the report? _____%

   C. Of those income producing/land appraisals that do not pass USPAP on the first submission, what percentage of those ultimately are corrected to an acceptable level? _____%

   D. Overall, income producing/land appraisal report conformance with USPAP has:
      _____ Generally improved
      _____ Generally declined
      _____ Remained about the same

   E. Overall, income producing/land appraisal report value accuracy has:
      _____ Generally improved
      _____ Generally declined
      _____ Remained about the same

SUMMARY OF MAY 10, 1993 SURVEY RESULTS

1. Residential fees have either remained the same of increased by less than 10%.

2. Residential delivery times have generally remained the same, but in some cases increased by 25%.

3. 80% of the appraisals pass the RTC compliance checklist on the first submission. Overall, quality has been about the same to slightly increasing.

4. Income producing appraisal fees have remained the same to slightly decreasing (about 15%).

5. Delivery times for commercial appraisal have generally remained the same with some areas showing improvement and other areas observing delays.

6. About 65% of commercial appraisals pass RTC's initial compliance checklist on the first submission.

ATTACHMENT IV.

News

Savings & Community Bankers of America
900 19th Street, N.W., Suite 400, Washington, D.C. 20006 • Telephone (202) 857-3100

For Release
February 2, 1994
#94-4

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SURVEY SHOWS SAVINGS INSTITUTIONS BIG PLAYERS IN SECONDARY MORTGAGE MARKET

PHOENIX — Savings institutions are well known for holding the mortgages they originate in portfolio, but a survey by Savings & Community Bankers of America shows that savings institutions are also big players in the secondary mortgage market.

Survey results, which were announced at SCBA's National Secondary Mortgage Market Conference, showed that for the 12-month period ended in September 1993, the 214 institutions participating in the survey sold 42 percent of their mortgage originations in the secondary market.

"Savings institutions are integral to the secondary market at every level and are key players in almost every phase," said Robert R. Davis, SCBA's director of economics and research, in announcing the survey results.

About 82 percent of surveyed secondary market sales were to Fannie Mae and Freddie Mac, with the remainder passing through private conduits, Davis said. Sales to the those agencies consisted mainly of fixed-rate mortgages with 15-year and 30-year maturities. On a dollar-weighted basis, Fannie and Freddie bought equal shares of savings institutions' mortgage originations, totalling 17 percent and 18 percent, respectively.

(more)

"Fannie tended to deal in larger transactions with fewer institutions," said Davis. "Only 18 percent of respondents reported sales to Fannie Mae, while 34 percent reported sales to Freddie Mac. Approximately 9 percent were active with both agencies," he said.

Secondary market sales through private conduits were also reported at high levels, Davis said. More than 16 percent of respondents sold to private conduits, totalling 18 percent of dollar-weighted sales. Private conduits handled a mixed bag of loan products, particularly non-conforming loans. Heavy originators of balloon loans and adjustable rate mortgages frequently reported large sales to conduits, said Davis.

Although savings institutions sell non-conforming as well as conforming mortgage products in the secondary market, they retain a disproportionate share of non-conforming loans in portfolio, said Davis. "This may reflect, in part, the relative profitability of non-conforming loans, but probably results principally due to more limited opportunities for secondary sales of such loans.

"Without portfolio lenders willing to hold loans, a large segment of creditworthy non-conforming borrowers would be denied credit, to the detriment of community development."

Of the more than $450 billion in residential mortgage loans held by savings institutions, SCBA survey data indicate that about 45 percent of a typical institution's mortgage portfolio is non-conforming.

Savings institutions originated a wide variety of mortgages in 1993, even through declining interest rates made fixed-rate products extremely popular. Survey respondents indicated that about 20 different mortgage types were offered, with 15-year fixed-rate mortgages the most popular. However, "other" non-standard products comprised the largest single category, consisting of a wide variety of fixed-rate, balloon, and adjustable rate mortgage loans with a range of differing maturities.

(more)

Davis said that in general, secondary market activities are conducted directly from the depositories, but 7 percent of survey respondents operate mortgage banking subsidiaries. "Contrary to intuition, mortgage banking subsidiaries are more likely to be operated by mid-sized savings institutions in the $500 million range than by larger institutions," Davis said. "Mortgage banking affiliates typically account for about 66 percent of an institution's originations whenever that organizational structure is chosen."

Savings & Community Bankers of America is a national trade association representing more than 2,000 savings and community financial institutions with assets in excess of $800 billion. Its members focus on providing real estate finance and community financial services.

-30-

A summary of the survey results is attached.

MORTGAGE LENDING PRACTICES

SCBA MEMBER SURVEY SUMMARY

The Survey

The information shown here is based on survey responses from 214 SCBA member institutions. The survey sample was widely dispersed geographically and across charter types and asset sizes. We believe the sample offers a representative picture of the activities of SCBA members and the savings institution industry.

The sample respondents (201 institutions answered this question) reported total originations of $19.33 billion in single-family mortgage loans during the year sampled - from the fourth quarter of 1992 through the third quarter of 1993. This total is proportional to the approximately $225 billion in originations by all 2300 savings institutions during the same period, representing an estimated 25 percent market share of mortgage originations by all lending institutions. The average respondent originated about $96 million in loans during the year, although responses ranged from a low of $361,000 to a high of $4.1 billion.

Type of Mortgages Originated

Respondents reported originating the following types of mortgage loans, as a percentage of their total originations. Figures are shown as an average per respondent and as a dollar-weighted percentage of all originations in the sample.

Mortgage Type	Survey Average	Dollar-Weighted Average
30-year FRMs (median)	19% (15%)	22%
15-year FRMs (median)	37% (35%)	26%
1-year ARMs (median)	23% (10%)	10%
3-year ARMs (median)	4% (0%)	3%
5-year ARMs (median)	4% (0%)	3%
Others	32%	36%

Several types of "Other" loans are listed in the order in which they were most frequently mentioned:

1) 10, 20 & 25-year FRMs

2) 10-year balloon (30-year amortization)

3) 5, 3 & 2-year balloon

4) Bi-weekly FRM (30s and 15s)

5) 6-month or monthly ARMs

6) 7/23 & 5/25

7) 7-year FRMs (fully amortizing).

Secondary Market Sales

Respondents sold 42 percent of their originations on the secondary market. About 82 percent of secondary market sales were to the agencies, Fannie and Freddie. Secondary activities are shown by the percentage of respondents who sold in the secondary market, and by dollar-weighted sales as a percentage of total originations.

SMM Purchaser	Percentage of Respondents Selling Originations	Dollar-Weighted Average of Secondary Sales
FNMA	18%	17%
FHLMC	34%	18%
GNMA	1%	*
Private Conduits	16%	7%

Non-conforming Loans

Savings institutions maintain a considerable stock of non-conforming mortgage loans in portfolio - about 45% of the typical institution's mortgage portfolio, according to an earlier SCBA survey. Survey respondents were asked to rank the reasons why loans that they originated might not conform to secondary market standards. These reasons, in order of most frequently cited, are:

1) Property not owner-occupied.

2) Loan size exceeds dollar limits.

3) Borrower credit\income history.

4) High LTV.

5) Borrower borrowed downpayment or has high debt levels.

6) Other - most frequently cited: Property type, land size.

American Banker
February 3, 1994

Thrifts Sell 42% of Their Loans in Secondary Market

By JAMES H. SAFT

Savings institutions have become big users of the secondary mortgage markets.

That's one of the key findings of [redacted] the Savings and Co[redacted]ity Bankers of America, a trade group for thrifts.

These lenders sell an average of 42% of their mortgage originations into the secondary market, the survey determined.

Details of the [redacted] were made public Tuesday at the association's western secondary-markets conference in Phoenix.

Other data from the study also support the widely held belief that thrifts have become increasingly like mortgage banks in recent years.

Fannie Mae and Freddie Mac get nearly equal shares, a survey found.

Survival Story

"It's not so much that more savings institutions are selling loans to the secondary market than five or six years ago, but that more of those that do have survived," said Robert R. Davis, the director of economics and research for the association. "Strong institutions take advantage of all their options. The secondary market is one of those," he added.

The survey of 214 institutions measured activity over the 12 months through September 1993.

Respondents sold 18% of all the dollar value of loans originated to the Federal Home Loan Mortgage Corp., while 17% went to the Federal National Mortgage Association. Private conduits purchased and securitized a healthy 7% of the dollar value of loans, pointing out the importance of the nonconforming market to thrift mortgage lenders.

Despite the fact that Fannie Mae and Freddie Mac bought about the same amount of mortgages, Freddie buys loans from 34% of thrifts surveyed, almost double the 18% that sell to Fannie. Freddie Mac has been developing business with a growing number of smaller thrifts.

Robert R. Davis
Economics/research director, Savings and Community Bankers of America

Nonconforming Loans

Of the more than $450 billion in residential mortgages held in portfolio by thrifts, 45% is nonconforming, according to the study.

"While this may reflect higher profitability of nonconforming loans, it probably results principally due to limited opportunities for secondary sales," said Mr. Davis.

Surprisingly, the No. 1 reason cited by lenders that portfolio loans do not conform is that the collateral is not owner-occupied.

This reason is followed closely by loan size and borrower credit or income history.

Mr. Davis believes that nonconforming lending points out a unique advantage enjoyed by thrifts over their mortgage banker brethren. "A savings and loan has portfolio lending ability. This gives them flexibility to offer the variety of products demanded by borrowers."

The survey also measured the types of loans being originated by thrifts. By dollar-weighted average, the leading loan product is the 15-year fixed-rate mortgage, with 26%. This is followed by the 30-year fixed at 22%. □

ATTACHMENT V.

RESOLUTION TRUST CORPORATION

CONTRACTING ANALYSIS BY SERVICE TYPE

FOR PERIOD 08/01/89 TO 02/22/94
FOR ALL RTC OFFICES
INCLUDING REPORTING INSTITUTIONS

02/22/94
15:18:38
CARR0421

		FIRMS SENT SOLICITATIONS			PROPOSALS RECEIVED			CONTRACTS AWARDED			ESTIMATED FEES	
SERVICE TYPE	NUMBER OF SOLICITATIONS	MWOB	%	TOTAL	MWOB	%	TOTAL	MWOB	%	TOTAL	MWOB	TOTAL
ACCOUNTING, AUDITING, FINANCIA	1319	4180	29	14368	1419	25	5615	589	22	2631	122,657,160	522,979,492
* APPRAISAL REVIEW	7447	6916	30	23439	5258	29	18222	2308	32	7325	2,203,724	8,294,698
ARCHITECTURAL/ENGINEERING CONS	369	276	25	1120	184	24	764	84	23	361	511,721	3,035,521
ASSET DUE DILIGENCE/FILE REVIE	486	1228	30	4093	562	32	1736	256	28	928	14,588,382	374,630,410
ASSET MANAGEMENT	209	4039	35	11580	1260	37	3431	112	47	240	306,573,952	754,630,673
* BROKER'S OPINION OF VALUE	1267	1549	37	4202	862	34	2520	483	40	1214	440,114	1,482,695
CLOSING ASSISTANCE	159	674	29	2335	276	26	1082	160	45	356	22,839,362	64,012,496
COMPUTER SYSTEMS & DATABASE MA	146	414	40	1036	127	42	306	54	29	184	7,136,587	16,882,393
CONSTRUCTION	1272	1129	29	3961	703	25	2785	323	28	1135	5,048,522	22,362,716
CONSTRUCTION CONSULTING	131	127	23	551	92	24	385	34	7	470	237,709	1,028,026
ENVIRONMENTAL CONSULTING	12686	18395	35	53252	12121	36	33937	5592	42	13414	22,374,284	67,098,471
EVICTING & SECURING PROPERTY	56	56	26	212	34	30	115	14	30	47	29,000	78,782
FINANCIAL INSTITUTION MANAGEME	40	252	40	628	63	37	171	12	15	79	10,804,648	97,535,486
FINANCIAL INVESTIGATION	2500	3641	43	8502	2508	45	5623	1192	39	3068	3,149,857	18,376,293
FULL LOAN SERVICING	17	66	16	408	17	13	135	0	0	15	0	141,931,615
INSURANCE	378	254	20	1286	44	8	551	83	21	388	211,562	6,448,755
LEASING	40	55	29	189	14	19	73	8	23	35	152,911	645,212
LEGAL SERVICES	144	74	32	234	50	26	190	36	28	128	101,907	827,550
LOAN ADMINISTRATION/CONSULTING	421	883	27	3290	294	29	1005	134	30	442	19,708,085	152,304,473
LOANS	33	236	33	706	62	29	215	15	34	44	7,035,094	34,853,114
MARKETING/PROMOTION	142	297	30	996	150	29	512	96	47	205	2,771,375	7,783,153
OPERATIONS SUPPLIES & SUPPORT	1853	2275	30	7571	1250	26	4519	1410	42	3341	69,270,848	154,165,456
* OTHER APPRAISAL SERVICES	869	842	27	3142	462	25	1853	201	25	794	2,418,915	4,973,989

RESOLUTION TRUST CORPORATION

CONTRACTING ANALYSIS BY SERVICE TYPE

FOR PERIOD 08/01/89 TO 02/22/94
FOR ALL RTC OFFICES
INCLUDING REPORTING INSTITUTIONS

02/22/94
15:18:38
CARR0421

SERVICE TYPE	NUMBER OF SOLICITATIONS	FIRMS SENT SOLICITATIONS			PROPOSALS RECEIVED			CONTRACTS AWARDED			ESTIMATED FEES	
		MWOB	%	TOTAL	MWOB	%	TOTAL	MWOB	%	TOTAL	MWOB	TOTAL
OTHER CONSULTING	959	2590	36	7269	1056	40	2620	545	39	1386	163,487,673	553,266,751
OTHER SERVICES OFFERED	1405	1665	32	5227	947	32	2966	490	34	1456	33,583,681	129,371,919
PROPERTY MAINTENANCE	3609	4187	37	11468	2379	35	6747	1226	37	3345	4,066,908	14,671,094
PROPERTY MANAGEMENT	3250	7102	37	19407	3526	37	9585	1040	36	2870	18,421,341	42,417,991
REAL ESTATE APPRAISALS	60504	59909	26	229087	40616	25	162255	16817	28	59899	34,620,755	156,304,235
REAL ESTATE BROKERAGE	20095	36100	37	97595	17596	38	46207	7867	43	18142	105,969,522	325,400,957
REAL ESTATE CONSULTING	113	250	34	733	121	34	353	71	48	148	2,078,474	4,046,449
REAL ESTATE MARKETING/SALES	758	2105	30	7110	724	27	2671	238	25	958	41,913,259	148,813,657
SECURITIES	518	86	13	642	47	9	539	44	9	513	3,153,591	71,236,485
SECURITY SERVICE	187	170	28	598	60	20	293	15	8	187	277,069	1,332,874
SURVEYING	1389	1231	28	4392	778	25	3077	328	25	1304	1,429,146	5,116,248
TAX CONSULTING	481	1321	31	4216	632	29	2181	167	31	542	6,345,551	39,329,285
TITLE WORK	2393	1909	31	6141	1201	30	3939	744	31	2431	1,474,476	15,999,205
TOTALS	127645	166483	31	540986	97495	30	329178	42788	33	130025	1,037,087,165	3,963,660,619

TOTAL APPRAISAL RELATED FEES

($ expressed in millions)

ATTACHMENT VI.

RTC SECURITIZATION AGGREGATE SUMMARIES

(does not include MIF, N and S transactions)

	Types/# of deals	Issue Size Totals	Number of Loans*	Reserve Totals
1991, 1992 and 1993 (thru 12/93)	Single family (38)	$21,832,997,047	330,473	$2,974,355,425
	Multi-family (11)	$4,482,175,723	8,385	$1,281,946,971
	Commercial (12)	$9,051,473,085	23,697	$2,331,799,401
	Mobile Home (3)	$615,879,230	39,987	$103,662,520
	Home Equity (1)	$311,485,000	17,600	$39,373,500
	TOTALS (65)	$36,294,010,085	420,142	$6,731,137,817
	1991			
	Single family (16)	$7,554,234,047	85,925	$1,265,438,337
	Multi-family (7)	$2,702,326,723	3,790	$761,243,541
	91 TOTALS (23)	$10,256,560,770	89,715	$2,026,681,877.50
	1992			
	Single family (17)	$12,674,120,000	224,313	$1,555,663,876
	Multi-family (4)	$1,779,849,000	4,595	$520,703,430
	Commercial (9)	$6,848,810,566	18,968	$1,851,284,553
	Mobile Home (3)	$615,879,230	39,987	$103,662,520
	Home Equity (1)	$311,485,000	17,600	$39,373,500
	92 TOTALS (34)	$22,230,143,796	305,463	$4,070,687,879.30
	1993			
	Single family (5)	$1,604,643,000	20,235	$153,253,213
	Commercial (3)	$2,202,662,519	5,715	$480,514,848
	93 TOTALS (8)	$3,807,305,519	24,964	$633,768,061

* only publicly-offered transactions

ATTACHMENT VII.

RTC
RESOLUTION TRUST CORPORATION
Resolving The Crisis
Restoring The Confidence

February 14, 1994

MEMORANDUM TO: James R. Wigand
Assistant Director
Loans and Other Assets

FROM: Richard Sassoon
Management Reporting Unit
Office of Field Accounting and Asset Operations

SUBJECT: Asset Composition Reports With Loan Counts

Attached you will find the following reports and charts containing data as of 12/31/93:

1. Asset Composition **Summary** Reports (Receiverships, Conservatorships, & Combined).

2. Asset Composition **Detailed** Reports by Office.

3. Several **presentation-quality** spreadsheets containing information regarding Inventory of Total Assets, Inventory of Mortgages and Loans, and Delinquency Rates as they relate to Mortgages and Loans.

4. Three **charts** comparing performing and non-performing loan balances from 12/31/92 to 12/31/93, in total and by institution type.

5. Three **spreadsheets** providing trend analysis of loan data over the period 12/31/92 to 12/31/93 by major loan category.

6. Asset Composition **Supplemental** Reports for Conservatorships and Receiverships containing asset balance information in more detailed asset-type stratifications (these reports do not include numbers of assets).

1735 North Lynn Street Rosslyn, Virginia 22209

Non-Performing Loans have generally been increasing as a proportion of total loan balances. However, in July 1992, with the addition of Home Fed of San Diego into the Conservatorship Program, this trend was temporarily interrupted because this institution had a much larger percentage of performing loans to non-performing loans. Yet since July 1992, the upward trend has once again begun to manifest itself: **As of 12/31/93, non-performing loans constitute 44% of all RTC's loans.**

As of	Total Loan Balances	Total Non-Perf. Loans	Percent of Total
1992, 2nd quarter	$63 B	$24 B	38%
1992, 3rd quarter	$62 B	$20 B	32%
1992, 4th quarter	$56 B	$20 B	36%
1993, 1st quarter	$48 B	$21 B	42%
1993, 2nd quarter	$41 B	$18 B	43%
1993, 3rd quarter	$37 B	$17 B	47%
1993, October 31	$35 B	$16 B	45%
1993, November 30	$34 B	$15 B	45%
1993, December 31	$31 B	$14 B	44%

If you have any questions on the reports, please feel free to call me on (703)908-7675.

Attachments

cc: Ms. Cunninghame
Mr. Mahaney
Office Vice Presidents
Mr. Horton
Mr. Thompson
Vice Presidents, Financial Operations & Accounting
Mr. Bodi
Ms. Watkins
Mr. Abbot
Mr. Jones
Mr. Hansel
Ms. Seigman
FAAO Section Chiefs
Ms. Jervey
Ms. Brace
Mr. Fulwider
Ms. Marks

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ASSET COMPOSITION SUMMARY REPORTS

- COMBINED
- CONSERVATORSHIPS
- RECEIVERSHIPS

ASSET COMPOSITION OF RTC CONSERVATORSHIPS & RECEIVERSHIPS

AS OF DECEMBER 31, 1993
NUMBER OF ASSETS [redacted]

676 INSTITUTIONS [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	TOTAL
Securities	NA	NA	NA	NA	NA	NA	NA
Performing 1–4 Mortgages	72,704	72,793	26,452	25,082	43,473	73,771	314,275
Non–Performing 1–4 Mortgages	9,456	15,263	3,726	1,218	1,280	5,195	36,138
Performing Other Mortgages	4,657	4,190	4,971	1,082	2,539	4,426	21,865
Non–Performing Other Mortgages	2,753	1,352	2,427	1,128	968	2,755	11,383
Total Mortgages	89,570	93,598	37,576	28,510	48,260	86,147	[illegible]
Performing Commercial Loans	782	421	265	56	223	81,632	83,379
Non–Performing Commercial Loans	1,563	159	996	268	256	3,575	6,817
Total Commercial Loans	2,345	580	1,261	324	479	85,207	90,196
Performing Consumer Loans	24,777	5,852	12,328	1,062	12,785	49,150	105,954
Non–Performing Consumer Loans	5,118	27,173	5,313	1,052	1,262	7,149	47,067
Total Consumer Loans (*)	29,895	33,025	17,641	2,114	14,047	56,299	153,021
Real Estate Owned	3,334	1,189	3,607	1,004	2,659	2,439	14,232
Other Fixed Assets	NA	NA	NA	NA	NA	NA	NA
Other Assets	NA	NA	NA	NA	NA	NA	NA
Judgements	NA	NA	NA	NA	NA	NA	NA
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	65,445	230,092	641,110
Recap:							
Total Performing Loans	102,920	83,256	44,016	27,282	59,020	208,979	525,473
Total Non–Performing Loans	18,890	43,947	12,462	3,666	3,766	18,674	101,405
Total Loans	121,810	127,203	56,478	30,948	62,786	227,653	626,878

Notes:
NA = Not Applicable
(*) Consumer Loan includes Mobile Home, Home Improvement, Auto, Education/Student and Other Consumer Loans.

Source: Receiverships – CTM's SSR data
Conservatorships – CADSTAR
Management Reporting Unit, FAAO

ASSET COMPOSITION OF RTC CONSERVATORSHIPS & RECEIVERSHIPS

AS OF DECEMBER 31, 1993
(BV $ In Millions)

[redacted]

676 INSTITUTIONS DESCRIPTION	ATLANTA	[illegible]	[illegible]	DENVER	KANSAS CITY	VALLEY FORGE	TOTAL	AVERAGE(**) ASSET VALUE
Securities	$2,172	$3,391	$315	$170	$2,617	$2,238	[illegible]	NA
Performing 1-4 Mortgages	$1,858	$1,853	$464	$144	$780	$2,379	$7,477	$23,791
Non-Performing 1-4 Mortgages	$487	$332	$127	$94	$54	$395	$1,490	$41,223
Performing Other Mortgages	$1,228	$1,857	$1,646	$408	$781	$1,837	$7,757	$354,773
Non-Performing Other Mortgages	$2,251	$1,551	$1,490	$1,808	$890	$1,952	$9,943	$873,501
Total Mortgages	$5,824	$5,594	$3,727	$2,453	$35,456	$6,563	[illegible]	$69,506
Performing Commercial Loans	$320	$126	$177	$51	$67	$658	$1,399	$16,781
Non-Performing Commercial Loans	$559	$112	$305	$237	$253	$463	$1,930	$283,126
Total Commercial Loans	$880	$238	$482	$288	$320	$1,121	$3,329	$36,911
Performing Consumer Loans	$214	$50	$40	$6	$73	$399	$783	$14,522
Non-Performing Consumer Loans	$54	$239	$57	$13	$11	$87	$461	$28,478
Total Consumer Loans (*)	$268	$289	$97	$19	$85	$486	$1,244	$8,129
Real Estate Owned	$810	$1,002	$2,119	$642	$488	$892	$5,953	$418,311
Other Fixed Assets	$127	$109	$86	$12	$40	$110	$483	NA
Other Assets	$2,063	$3,073	$4,243	$1,000	$949	$1,462	$12,789	NA
Judgements	$12	$25	$1,721	$78	$246	$6	$2,087	NA
Total Assets	[illegible]	[illegible]	[illegible]	[illegible]	$7,252	$12,878	$63,454	$58,014
Recap:								
Total Performing Loans	$3,621	$3,886	$2,327	$608	$1,702	$5,273	$17,416	$33,144
Total Non-Performing Loans	$3,351	$2,234	$1,979	$2,153	$1,209	$2,897	$13,824	$136,322
Total Loans	$6,972	$6,120	$4,306	$2,761	$2,911	$8,170	$31,240	$49,834

Notes:
NA = Not Applicable
(*) Consumer Loan includes Mobile Home, Home Improvement, Auto, Education/Student and Other Consumer Loans.
(**) Average Asset Values, calculated for Loans and REO only, are in whole numbers, and are calculated by dividing the asset book value by the asset count.
Asset Book Values are reported NET of participation loans, but the asset count does NOT distinguish between GROSS and PARTICIPATION loans.

Source: Receiverships – Financial Management System (FMS)
Conservatorships – CADSTAR
Management Reporting Unit, FAAO

ASSET COMPOSITION OF RTC CONSERVATORSHIPS & RECEIVERSHIPS

AS OF DECEMBER 31, 1993
(Average $ BV In Whole Figures)

676 INSTITUTIONS DESCRIPTION	[illegible]	[illegible]	[illegible]	[illegible]	KANSAS CITY	[illegible]	TOTAL
Securities	NA	NA	NA	NA	NA	NA	NA
Performing 1–4 Mortgages	$25,562	$25,453	$17,533	$5,722	$17,931	$32,245	$23,791
Non–Performing 1–4 Mortgages	$51,488	$21,782	$34,077	$77,067	$42,519	$76,057	$41,223
Performing Other Mortgages	$263,720	$443,311	$331,058	$376,655	$307,774	$415,008	$354,773
Non–Performing Other Mortgages	$817,586	$1,147,473	$614,016	$1,603,251	$919,633	$708,521	$873,501
Total Mortgages	$65,025	$59,768	$99,177	$86,054	$734,679	$76,180	[illegible]
Performing Commercial Loans	$409,328	$298,664	$668,591	$904,188	$301,537	$8,064	$16,781
Non–Performing Commercial Loans	$357,960	$703,940	$306,501	$885,453	$989,066	$129,475	$283,126
Total Commercial Loans	$375,090	$409,765	$382,594	$888,691	$668,985	$13,158	$36,911
Performing Consumer Loans	$8,651	$8,534	$3,253	$6,007	$5,744	$8,114	$7,390
Non–Performing Consumer Loans	$10,473	$8,783	$10,729	$12,290	$8,869	$12,237	$9,792
Total Consumer Loans (*)	$8,963	$8,739	$5,504	$9,134	$6,025	$8,638	$8,129
Real Estate Owned	$242,898	$842,408	$587,457	$639,885	$183,671	$365,793	$418,311
Other Fixed Assets	NA	NA	NA	NA	NA	NA	NA
Other Assets	NA	NA	NA	NA	NA	NA	NA
Judgements	NA	NA	NA	NA	NA	NA	NA
Total Assets	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	$58,014
Recap:							
Total Performing Loans	$35,183	$46,675	$52,861	$22,288	$28,832	$25,231	$33,144
Total Non–Performing Loans	$177,384	$50,844	$158,840	$587,170	$321,036	$155,159	$136,322
Total Loans	$57,236	$48,115	$76,246	$89,202	$46,359	$35,888	$49,834

Notes:
NA = Not Applicable
(*) Consumer Loan includes Mobile Home, Home Improvement, Auto, Education/Student and Other Consumer Loans.
(**) Average Asset Values, calculated for Loans and REO only, are in whole numbers, and are calculated by dividing the asset book value by the asset count.
Asset Book Values are reported NET of participation loans, but the asset count does NOT distinguish between GROSS and PARTICIPATION loans.

Source: Receiverships – Financial Management System (FMS), CTM's SSR data
Conservatorships – CADSTAR
Management Reporting Unit, PAAO

15-Feb-94

ASSET COMPOSITION OF RTC CONSERVATORSHIPS

AS OF DECEMBER 31, 1993 15-Feb-94

NUMBER OF ASSETS

63 CONSERVATORSHIP INST.	ASSET COUNTS						
DESCRIPTION	ATLANTA	CALIFORNIA	DALLAS	DENVER	KANSAS CITY	VALLEY FORGE	TOTAL
Securities	NA	NA	NA	NA	NA	NA	NA
Performing 1-4 Mortgages	22,005	19,842	2,914		9,236	43,782	97,779
Non-Performing 1-4 Mortgages	862	908	137		409	1,231	3,547
Performing Other Mortgages	2,042	1,564	343		540	1,928	6,417
Non-Performing Other Mortgages	401	151	68		137	502	1,259
Total Mortgages	25,310	22,465	3,462		10,322	47,443	109,002
Performing Commercial Loans	287	326	23		21	80,963	81,620
Non-Performing Commercial Loans	101	25	14		20	2,837	2,997
Total Commercial Loans	388	351	37		41	83,800	84,617
Performing Consumer Loans	17,456	4,364	1,718		7,702	41,011	72,251
Non-Performing Consumer Loans	910	16	86		226	860	2,098
Total Consumer Loans (*)	18,366	4,380	1,804		7,928	41,871	74,349
Real Estate Owned	661	346	96		206	693	2,002
Other Fixed Assets	NA	NA	NA	NA	NA	NA	NA
Other Assets	NA	NA	NA	NA	NA	NA	NA
Judgements	NA	NA	NA	NA	NA	NA	NA
Total Assets	44,725	27,542	5,399		18,497	173,807	269,970
Recap:							
Total Performing Loans	41,790	26,096	4,998		17,499	167,684	258,067
Total Non-Performing Loans	2,274	1,100	305		792	5,430	9,901
Total Loans	44,064	27,196	5,303		18,291	173,114	267,968

Notes:

NA = Not Applicable

Conservatorships "Non-Performing" Loans are those on which one or more payments have been missed or not paid in full 90 days from the payment due date but are still accruing, and includes Non-Accruing Loans.

Accrued Interest Receivables are not included in totals.

(*) Consumer Loan includes Mobile Home, Home Improvement, Auto, Education/Student and Other Consumer Loans.

Sources: CADSTAR

Management Reporting Unit, FAAO

ASSET COMPOSITION OF RTC CONSERVATORSHIPS

AS OF DECEMBER 31, 1993
(BV $ in Millions)

[illegible]

63 CONSERVATORSHIP INST. DESCRIPTION	[illegible]	[illegible]	[illegible]	DENVER	KANSAS CITY	VALLEY FORGE	TOTAL	AVERAGE(**) ASSET VALUE
Securities	$1,778	$1,651	$181		$2,275	$1,955	$7,840	NA
Performing 1–4 Mortgages	$1,077	$1,356	$131		$271	$1,868	$4,702	$48,090
Non–Performing 1–4 Mortgages	$63	$146	$7		$26	$93	$336	$94,767
Performing Other Mortgages	$499	$875	$791		$220	$962	$3,347	$521,597
Non–Performing Other Mortgages	$238	$227	$97		$198	$237	$997	$791,929
Total Mortgages	$1,877	$2,604	$1,027		$33,664	$3,160	$9,382	$86,076
Performing Commercial Loans	$68	$8	$3		$2	$489	$569	$6,971
Non–Performing Commercial Loans	$17	$16	$39		$7	$71	$150	$50,158
Total Commercial Loans	$85	$24	$42		$9	$560	$719	$8,501
Performing Consumer Loans	$153	$7	$10		$42	$338	$550	$7,616
Non–Performing Consumer Loans	$12	$0	$1		$1	$26	$40	$19,122
Total Consumer Loans (*)	$166	$7	$11		$43	$364	$590	$7,941
Real Estate Owned	$257	$240	$82		$144	$379	$1,102	$550,285
Other Fixed Assets	$121	$50	$36		$35	$92	$334	NA
Other Assets	$880	$647	$603		$428	$627	$3,185	NA
Judgements	NA	NA	NA	NA	NA	NA	NA	NA
TOTAL ASSETS	[illegible]	[illegible]	[illegible]		$3,648	$7,138	$23,154	$43,686
Recap:								
Total Performing Loans	$1,797	$2,245	$935		$534	$3,657	$9,169	$35,528
Total Non–Performing Loans	$330	$389	$144		$232	$428	$1,524	$153,885
Total Loans	$2,127	$2,635	$1,079		$766	$4,085	$10,692	$39,901

Notes:
NA = Not Applicable
Conservatorships "Non–Performing" Loans are those on which one or more payments have been missed or not paid in full 90 days from the payment due date but are still accruing, and includes Non–Accruing Loans.
Accrued Interest Receivables are not included in totals.
(*) Consumer Loan includes Mobile Home, Home Improvement, Auto, Education/Student and Other Consumer Loans.
(**) Average Asset Values, calculated for Loans and REO only, are in whole numbers, and are calculated by dividing the asset book value by the asset count.
Asset Book Values are reported NET of participation loans, but the asset count does NOT distinguish between GROSS and PARTICIPATION loans.

Sources: CADSTAR
Management Reporting Unit, FAAO

ASSET COMPOSITION OF RTC CONSERVATORSHIPS

AS OF DECEMBER 31, 1993

(Average $ BV in Whole Figures)

AVERAGE BOOK VALUES (**)

63 CONSERVATORSHIP INST. DESCRIPTION	[illegible]	[illegible]	[illegible]	[illegible]	KANSAS CITY	VALLEY FORGE	TOTAL
Securities	NA	NA	NA	NA	NA	NA	NA
Performing 1-4 Mortgages	$48,926	$68,341	$44,952		$29,301	$42,664	$48,090
Non-Performing 1-4 Mortgages	$73,512	$161,099	$49,628		$64,105	$75,935	$94,767
Performing Other Mortgages	$244,608	$559,445	$2,307,239		$406,631	$498,786	$521,597
Non-Performing Other Mortgages	$10,796	$1,502,291	$1,433,353		$1,443,270	$472,968	$791,929
Total Mortgages	**$74,162**	**$115,919**	**$296,546**		**$3,261,399**	**$66,616**	**$86,076**
Performing Commercial Loans	$236,080	$23,635	$118,609		$91,952	$6,038	$6,971
Non-Performing Commercial Loans	$168,337	$640,680	$2,803,143		$343,500	$25,093	$50,158
Total Commercial Loans	**$218,446**	**$67,584**	**$1,134,378**		**$214,659**	**$6,683**	**$8,501**
Performing Coosumer Loans	$8,779	$1,542	$5,878		$5,461	$8,246	$7,616
Noo-Performing Consumer Loans	$13,686	$15,063	$7,616		$3,951	$30,086	$19,122
Total Consumer Loans (*)	**$9,022**	**$1,592**	**$5,961**		**$5,418**	**$8,694**	**$7,941**
Real Estate Owned	**$389,408**	**$692,991**	**$849,271**		**$699,131**	**$546,818**	**$550,285**
Other Fixed Assets	NA	NA	NA	NA	NA	NA	NA
Other Assets	NA	NA	NA	NA	NA	NA	NA
Judgements	NA	NA	NA	NA	NA	NA	NA
Total Assets	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Recap:							
Total Performing Loans	$43,003	$86,045	$187,115		$30,528	$21,807	$35,528
Total Non-Performing Loans	$145,290	$353,984	$472,675		$292,563	$78,816	$153,885
Total Loans	**$48,282**	**$96,882**	**$203,539**		**$41,874**	**$23,595**	**$39,901**

Notes:

NA = Not Applicable

Conservatorships "Non-Performing" Loans are those on which one or more payments have been missed or not paid in full 90 days from the payment due date but are still accruing, and includes Non-Accruing Loans.

Accrued Interest Receivables are not included in totals.

(*) Consumer Loan includes Mobile Home, Home Improvement, Auto, Education/Student and Other Consumer Loans.

(**) Average Asset Values, calculated for Loans and REO only, are in whole numbers, and are calculated by dividing the asset book value by the asset count. Asset Book Values are reported NET of participation loans, but the asset count does NOT distinguish between GROSS and PARTICIPATION loans.

Sources: CADSTAR

Management Reporting Unit, FAAO

15-Feb-94

ASSET COMPOSITION OF RTC RECEIVERSHIPS

AS OF DECEMBER 31, 1993
NUMBER OF ASSETS

[illegible]

613 RECEIVERSHIP INST. DESCRIPTION	[illegible]	[illegible]	[illegible]	DENVER	[illegible]	[illegible]	TOTAL
Securities	NA	NA	NA	NA	NA	NA	NA
Performing 1-4 Mortgages	50,699	52,951	23,538	25,082	34,237	29,989	216,496
Non-Performing 1-4 Mortgages	8,594	14,355	3,589	1,218	871	3,964	32,591
Performing Other Mortgages	2,615	2,626	4,628	1,082	1,999	2,498	15,448
Non-Performing Other Mortgages	2,352	1,201	2,359	1,128	831	2,253	10,124
Total Mortgages	64,260	71,133	34,114	28,510	37,938	38,704	274,659
Performing Commercial Loans	495	95	242	56	202	669	1,759
Non-Performing Commercial Loans	1,462	134	982	268	236	738	3,820
Total Commercial Loans	1,957	229	1,224	324	438	1,407	5,579
Performing Consumer Loans	7,321	1,488	10,610	1,062	5,083	8,139	33,703
Non-Performing Consumer Loans	4,208	27,157	5,227	1,052	1,036	6,289	44,969
Total Consumer Loans (*)	11,529	28,645	15,837	2,114	6,119	14,428	78,672
Real Estate Owned	2,673	843	3,511	1,004	2,453	1,746	12,230
Other Fixed Assets	NA	NA	NA	NA	NA	NA	NA
Other Assets	NA	NA	NA	NA	NA	NA	NA
Judgements	NA	NA	NA	NA	NA	NA	NA
Total Assets	80,419	100,850	54,686	31,952	46,948	56,285	371,140
Recap:							
Total Performing Loans	61,130	57,160	39,018	27,282	41,521	41,295	267,406
Total Non-Performing Loans	16,616	42,847	12,157	3,666	2,974	13,244	91,504
Total Loans	77,746	100,007	51,175	30,948	44,495	54,539	358,910

Notes:
NA = Not Applicable
Receiverships "Non-Performing" Loans are those on which one or more payments have been missed or not paid in full within 66 days of the payment due date.
(*) Consumer Loan includes Mobile Home, Home Improvement, Auto, Education/Student and Other Consumer Loans.

Sources: CTM's SSR data
Management Reporting Unit, FAAO

ASSET COMPOSITION OF RTC RECEIVERSHIPS

AS OF DECEMBER 31, 1993
(BV $ in Millions)

613 RECEIVERSHIP INST.	BOOK VALUES							
DESCRIPTION	ATLANTA	CALIFORNIA	DALLAS	DENVER	KANSAS CITY	VALLEY FORGE	TOTAL	AVERAGE(**) ASSET VALUE
Securities	$394	$1,740	$133	$170	$342	$283	$3,062	NA
Performing 1-4 Mortgages	$782	$497	$333	$144	$509	$511	$2,775	$12,816
Non-Performing 1-4 Mortgages	$424	$186	$120	$94	$28	$302	$1,154	$35,396
Performing Other Mortgages	$729	$983	$854	$408	$562	$875	$4,410	$285,475
Non-Performing Other Mortgages	$2,013	$1,325	$1,393	$1,808	$692	$1,715	$8,946	$883,645
Total Mortgages	$3,947	$2,990	$2,700	$2,453	$1,791	$3,402	$17,284	$62,930
Performing Commercial Loans	$252	$118	$174	$51	$65	$169	$830	$471,970
Non-Performing Commercial Loans	$542	$96	$266	$237	$246	$392	$1,780	$465,902
Total Commercial Loans	$795	$214	$440	$288	$312	$561	$2,610	$467,815
Performing Consumer Loans	$61	$43	$30	$6	$31	$61	$233	$6,905
Non-Performing Consumer Loans	$41	$238	$56	$13	$10	$62	$421	$9,356
Total Consumer Loans (*)	$102	$282	$86	$19	$42	$122	$653	$8,306
Real Estate Owned	$552	$762	$2,037	$642	$344	$513	$4,852	$396,707
Other Fixed Assets	$6	$58	$49	$12	$5	$18	$149	NA
Other Assets	$1,183	$2,426	$3,640	$1,000	$522	$834	$9,604	NA
Judgements	$12	$25	$1,721	$78	$246	$6	$2,087	NA
Total Assets	[illegible]	[illegible]	$10,607	$4,661	$3,604	$5,741	$40,300	$68,436
Recap:								
Total Performing Loans	$1,824	$1,641	$1,392	$608	$1,167	$1,616	$8,248	$30,843
Total Non-Performing Loans	$3,020	$1,845	$1,835	$2,153	$977	$2,469	$12,300	$134,421
Total Loans	$4,844	$3,486	$3,227	$2,761	$2,145	$4,086	$20,548	$57,250

Notes:
NA = Not Applicable
Receiverships "Non-Performing" Loans are those on which one or more payments have been missed or not paid in full within 60 days of the payment due date.
(*) Consumer Loan includes Mobile Home, Home Improvement, Auto, Education/Student and Other Consumer Loans.
(**) Average Asset Values, calculated for Loans and REO only, are in whole numbers, and are calculated by dividing the asset book value by the asset count. Asset Book Values are reported NET of participation loans, but the asset count does NOT distinguish between GROSS and PARTICIPATION loans.

Sources: Financial Management System (FMS), CTM's SSR data
Management Reporting Unit, PAAO

ASSET COMPOSITION OF RTC RECEIVERSHIPS
AS OF DECEMBER 31, 1993

AVERAGE BOOK VALUES(**)

613 RECEIVERSHIP INST. DESCRIPTION	ATLANTA	CALIFORNIA	DALLAS	DENVER	KANSAS CITY	VALLEY FORGE	TOTAL
Securities	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Performing 1-4 Mortgages	$15,422	$9,382	$14,139	$5,722	$14,864	$17,034	$12,816
Non-Performing 1-4 Mortgages	$49,279	$12,970	$33,483	$77,067	$32,383	$76,095	$35,396
Performing Other Mortgages	$278,644	$374,144	$184,595	$376,655	$281,069	$350,346	$285,475
Non-Performing Other Mortgages	$855,973	$1,102,863	$590,398	$1,603,251	$833,305	$761,006	$883,645
Total Mortgages	**$61,427**	**$42,034**	**$79,147**	**$86,054**	**$47,220**	**$87,902**	**$62,930**
Performing Commercial Loans	$509,777	$1,242,447	$720,862	$904,188	$323,326	$253,255	$471,970
Non-Performing Commercial Loans	$371,060	$715,742	$270,907	$885,453	$1,043,775	$530,736	$465,902
Total Commercial Loans	**$406,147**	**$934,244**	**$359,869**	**$888,691**	**$711,513**	**$398,800**	**$467,815**
Performing Consumer Loans	$8,348	$29,038	$2,828	$6,007	$6,173	$7,451	$6,905
Non-Performing Consumer Loans	$9,778	$8,779	$10,780	$12,290	$9,942	$9,796	$9,356
Total Consumer Loans (*)	**$8,870**	**$9,832**	**$5,452**	**$9,134**	**$6,811**	**$8,473**	**$8,306**
Real Estate Owned	**$206,668**	**$903,735**	**$580,298**	**$639,885**	**$140,383**	**$293,943**	**$396,707**
Other Fixed Assets	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Other Assets	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Judgements	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Total Assets	**[illegible]**	**[illegible]**	**$96,264**	**$106,506**	**$53,019**	**$81,705**	**$68,436**
Recap:							
Total Performing Loans	$29,838	$28,701	$35,664	$22,288	$28,117	$39,134	$30,843
Total Non-Performing Loans	$181,776	$43,061	$150,966	$587,170	$328,619	$186,460	$134,421
Total Loans	**$62,310**	**$34,854**	**$63,055**	**$89,202**	**$48,202**	**$74,910**	**$57,258**

Notes:
NA = Not Applicable
Receiverships "Non-Performing" Loans are those on which one or more payments have been missed or not paid in full within 60 days of the payment due date.
(*) Consumer Loans includes Mobile Home, Home Improvement, Auto, Education/Student and Other Consumer Loans.
(**) Average Asset Values, calculated for Loans and REO only, are in whole numbers, and are calculated by dividing the asset book value by the asset count. Asset Book Values are reported NET of participation loans, but the asset count does NOT distinguish between GROSS and PARTICIPATION loans.

Source: Financial Management System (FMS), CTM's SSR data
Management Reporting Unit, PAAO

15 Feb 94

ASSET COMPOSITION DETAILED REPORTS

BY OFFICE

ASSET COMPOSITION OF RTC INSTITUTIONS
AS OF DECEMBER 31, 1993

ALL OFFICES	Book Value (Millions)			Number of Assets (Actual Number)		
	Conservatorships	Receiverships	All Institutions	Conservatorships	Receiverships	All Institutions
Securities	$7,840	$3,062	$10,902	NA	NA	NA
Performing 1–4 Mortgages	$4,702	$2,775	$7,477	97,779	216,496	314,275
Non–Performing 1–4 Mortgages	$336	$1,154	$1,490	3,547	32,591	36,138
Performing Other Mortgages	$3,347	$4,410	$7,757	6,417	15,448	21,865
Non–Performing Other Mortgages	$997	$8,946	$9,943	1,259	10,124	11,383
Performing Commercial	$569	$830	$1,399	81,620	1,759	83,379
Non–Performing Commercial	$150	$1,780	$1,930	2,997	3,820	6,817
Performing Consumer	$550	$233	$783	72,251	33,703	105,954
Non–Performing Consumer	$40	$421	$461	2,098	44,969	47,067
REO	$1,102	$4,852	$5,953	2,002	12,230	14,232
Other Fixed Assets	$334	$149	$483	NA	NA	NA
Other Assets	$3,185	$9,604	$12,789	NA	NA	NA
Judgments	NA	$2,087	$2,087	NA	NA	NA
Total Assets	$23,154	$40,300	$63,454	269,970	371,140	641,110
Summary Data:						
Total Mortgages	$9,382	$17,284	$26,667	109,002	274,659	383,661
Total Commercial Loans	$719	$2,610	$3,329	84,617	5,579	90,196
Total Consumer Loans	$590	$653	$1,244	74,349	78,672	153,021
Total Loans	$10,692	$20,548	$31,240	267,968	358,910	626,878
Performing Loans	$9,169	$8,248	$17,416	258,067	267,406	525,473
Non–Performing Loans	$1,524	$12,300	$13,824	9,901	91,504	101,405
Total Loans	$10,692	$20,548	$31,240	267,968	358,910	626,878

ASSET COMPOSITION OF RTC INSTITUTIONS
AS OF DECEMBER 31, 1993

	ATLANTA					
	Book Value (Millions)			Number of Assets (Actual Number)		
	Conservatorships	Receiverships	All Institutions	Conservatorships	Receiverships	All Institutions
Securities	$1,778	$394	$2,172	NA	NA	NA
Performing 1-4 Mortgages	$1,077	$782	$1,858	22,005	50,699	72,704
Non-Performing 1-4 Mortgages	$63	$424	$487	862	8,594	9,456
Performing Other Mortgages	$499	$729	$1,228	2,042	2,615	4,657
Non-Performing Other Mortgages	$238	$2,013	$2,251	401	2,352	2,753
Performing Commercial	$68	$252	$320	287	495	782
Non-Performing Commercial	$17	$542	$559	101	1,462	1,563
Performing Consumer	$153	$61	$214	17,456	7,321	24,777
Non-Performing Consumer	$12	$41	$54	910	4,208	5,118
REO	$257	$552	$810	661	2,673	3,334
Other Fixed Assets	$121	$6	$127	NA	NA	NA
Other Assets	$880	$1,183	$2,063	NA	NA	NA
Judgments	NA	$12	$12	NA	NA	NA
Total Assets	$5,164	$6,992	$12,155	44,725	80,419	125,144
Summary Data:						
Total Mortgages	$1,877	$3,947	$5,824	25,310	64,260	89,570
Total Commercial Loans	$85	$795	$880	388	1,957	2,345
Total Consumer Loans	$166	$102	$268	18,366	11,529	29,895
Total Loans	$2,127	$4,844	$6,972	44,064	77,746	121,810
Performing Loans	$1,797	$1,824	$3,621	41,790	61,130	102,920
Non-Performing Loans	$330	$3,020	$3,351	2,274	16,616	18,890
Total Loans	$2,127	$4,844	$6,972	44,064	77,746	121,810

ASSET COMPOSITION OF RTC INSTITUTIONS
AS OF DECEMBER 31, 1993

CALIFORNIA	Book Value (Millions)			Number of Assets (Actual Number)		
	Conservatorships	Receiverships	All Institutions	Conservatorships	Receiverships	All Institutions
Securities	$1,651	$1,740	$3,391	NA	NA	NA
Performing 1-4 Mortgages	$1,356	$497	$1,853	19,842	52,951	72,793
Non-Performing 1-4 Mortgages	$146	$186	$332	908	14,355	15,263
Performing Other Mortgages	$875	$983	$1,857	1,564	2,626	4,190
Non-Performing Other Mortgages	$227	$1,325	$1,551	151	1,201	1,352
Performing Commercial	$8	$118	$126	326	95	421
Non-Performing Commercial	$16	$96	$112	25	134	159
Performing Consumer	$7	$43	$50	4,364	1,488	5,852
Non-Performing Consumer	$0	$238	$239	16	27,157	27,173
REO	$240	$762	$1,002	346	843	1,189
Other Fixed Assets	$50	$58	$109	NA	NA	NA
Other Assets	$647	$2,426	$3,073	NA	NA	NA
Judgments	NA	$25	$25	NA	NA	NA
Total Assets	$5,223	$8,496	$13,718	27,542	100,850	128,392
Summary Data:						
Total Mortgages	$2,604	$2,990	$5,594	22,465	71,133	93,598
Total Commercial Loans	$24	$214	$238	351	229	580
Total Consumer Loans	$7	$282	$289	4,380	28,645	33,025
Total Loans	$2,635	$3,486	$6,120	27,196	100,007	127,203
Performing Loans	$2,245	$1,641	$3,886	26,096	57,160	83,256
Non-Performing Loans	$389	$1,845	$2,234	1,100	42,847	43,947
Total Loans	$2,635	$3,486	$6,120	27,196	100,007	127,203

ASSET COMPOSITION OF RTC INSTITUTIONS
AS OF DECEMBER 31, 1993

	DALLAS					
	Book Value (Millions)			Number of Assets (Actual Number)		
	Conservatorships	Receiverships	All Institutions	Conservatorships	Receiverships	All Institutions
Securities	$181	$133	$315	NA	NA	NA
Performing 1-4 Mortgages	$131	$333	$464	2,914	23,538	26,452
Non-Performing 1-4 Mortgages	$7	$120	$127	137	3,589	3,726
Performing Other Mortgages	$791	$854	$1,646	343	4,628	4,971
Non-Performing Other Mortgages	$97	$1,393	$1,490	68	2,359	2,427
Performing Commercial	$3	$174	$177	23	242	265
Non-Performing Commercial	$39	$266	$305	14	982	996
Performing Consumer	$10	$30	$40	1,718	10,610	12,328
Non-Performing Consumer	$1	$56	$57	86	5,227	5,313
REO	$82	$2,037	$2,119	96	3,511	3,607
Other Fixed Assets	$36	$49	$86	NA	NA	NA
Other Assets	$603	$3,640	$4,243	NA	NA	NA
Judgments	NA	$1,721	$1,721	NA	NA	NA
Total Assets	$1,981	$10,807	$12,789	5,399	54,686	60,085
Summary Data:						
Total Mortgages	$1,027	$2,700	$3,727	3,462	34,114	37,576
Total Commercial Loans	$42	$440	$482	37	1,224	1,261
Total Consumer Loans	$11	$86	$97	1,804	15,837	17,641
Total Loans	$1,079	$3,227	$4,306	5,303	51,175	56,478
Performing Loans	$935	$1,392	$2,327	4,998	39,018	44,016
Non-Performing Loans	$144	$1,835	$1,979	305	12,157	12,462
Total Loans	$1,079	$3,227	$4,306	5,303	51,175	56,478

ASSET COMPOSITION OF RTC INSTITUTIONS
AS OF DECEMBER 31, 1993

DENVER	Book Value (Millions)			Number of Assets (Actual Number)		
	Conservatorships	Receiverships	All Institutions	Conservatorships	Receiverships	All Institutions
Securities		$170	$170	NA	NA	NA
Performing 1-4 Mortgages		$144	$144		25,082	25,082
Non-Performing 1-4 Mortgages		$94	$94		1,218	1,218
Performing Other Mortgages		$408	$408		1,082	1,082
Non-Performing Other Mortgages		$1,808	$1,808		1,128	1,128
Performing Commercial		$51	$51		56	56
Non-Performing Commercial		$237	$237		268	268
Performing Consumer		$6	$6		1,062	1,062
Non-Performing Consumer		$13	$13		1,052	1,052
REO		$642	$642		1,004	1,004
Other Fixed Assets		$12	$12	NA	NA	NA
Other Assets		$1,000	$1,000	NA	NA	NA
Judgments	NA	$78	$78	NA	NA	NA
Total Assets		$4,661	$4,661		31,952	31,952
Summary Data:						
Total Mortgages		$2,453	$2,453		28,510	28,510
Total Commercial Loans		$288	$288		324	324
Total Consumer Loans		$19	$19		2,114	2,114
Total Loans		$2,761	$2,761		30,948	30,948
Performing Loans		$608	$608		27,282	27,282
Non-Performing Loans		$2,153	$2,153		3,666	3,666
Total Loans		$2,761	$2,761		30,948	30,948

ASSET COMPOSITION OF RTC INSTITUTIONS
AS OF DECEMBER 31, 1993

	KANSAS CITY					
	Book Value (Millions)			Number of Assets (Actual Number)		
	Conservatorships	Receiverships	All Institutions	Conservatorships	Receiverships	All Institutions
Securities	$2,275	$342	$2,617	NA	NA	NA
Performing 1-4 Mortgages	$271	$509	$780	9,236	34,237	43,473
Non-Performing 1-4 Mortgages	$26	$28	$54	409	871	1,280
Performing Other Mortgages	$220	$562	$781	540	1,999	2,539
Non-Performing Other Mortgages	$198	$692	$890	137	831	968
Performing Commercial	$2	$65	$67	21	202	223
Non-Performing Commercial	$7	$246	$253	20	236	256
Performing Consumer	$42	$31	$73	7,702	5,083	12,785
Non-Performing Consumer	$1	$10	$11	226	1,036	1,262
REO	$144	$344	$488	206	2,453	2,659
Other Fixed Assets	$35	$5	$40	NA	NA	NA
Other Assets	$428	$522	$949	NA	NA	NA
Judgments	NA	$246	$246	NA	NA	NA
Total Assets	$3,648	$3,604	$7,252	18,497	46,948	65,445
Summary Data:						
Total Mortgages	$714	$1,791	$2,506	10,322	37,938	48,260
Total Commercial Loans	$9	$312	$320	41	438	479
Total Consumer Loans	$43	$42	$85	7,928	6,119	14,047
Total Loans	$766	$2,145	$2,911	18,291	44,495	62,786
Performing Loans	$534	$1,167	$1,702	17,499	41,521	59,020
Non-Performing Loans	$232	$977	$1,209	792	2,974	3,766
Total Loans	$766	$2,145	$2,911	18,291	44,495	62,786

ASSET COMPOSITION OF RTC INSTITUTIONS
AS OF DECEMBER 31, 1993

	VALLEY FORGE					
	Book Value (Millions)			Number of Assets (Actual Number)		
	Conservatorships	Receiverships	All Institutions	Conservatorships	Receiverships	All Institutions
Securities	$1,955	$283	$2,238	NA	NA	NA
Performing 1-4 Mortgages	$1,868	$511	$2,379	43,782	29,989	73,771
Non-Performing 1-4 Mortgages	$93	$302	$395	1,231	3,964	5,195
Performing Other Mortgages	$962	$875	$1,837	1,928	2,498	4,426
Non-Performing Other Mortgages	$237	$1,715	$1,952	502	2,253	2,755
Performing Commercial	$489	$169	$658	80,963	669	81,632
Non-Performing Commercial	$71	$392	$463	2,837	738	3,575
Performing Consumer	$338	$61	$399	41,011	8,139	49,150
Non-Performing Consumer	$26	$62	$87	860	6,289	7,149
REO	$379	$513	$892	693	1,746	2,439
Other Fixed Assets	$92	$18	$110	NA	NA	NA
Other Assets	$627	$834	$1,462	NA	NA	NA
Judgments	NA	$6	$6	NA	NA	NA
Total Assets	$7,138	$5,741	$12,878	173,807	56,285	230,092
Summary Data:						
Total Mortgages	$3,160	$3,402	$6,563	47,443	38,704	86,147
Total Commercial Loans	$560	$561	$1,121	83,800	1,407	85,207
Total Consumer Loans	$364	$122	$486	41,871	14,428	56,299
Total Loans	$4,085	$4,086	$8,170	173,114	54,539	227,653
Performing Loans	$3,657	$1,616	$5,273	167,684	41,295	208,979
Non-Performing Loans	$428	$2,469	$2,897	5,430	13,244	18,674
Total Loans	$4,085	$4,086	$8,170	173,114	54,539	227,653

INVENTORY

AND

DELINQUENCY RATES

REPORTS

INVENTORY OF TOTAL ASSETS
CONSERVATORSHIPS AND RECEIVERSHIPS
As of December 31, 1993

Asset Type Category	Conservatorships	Receiverships	Total Institutions

BOOK VALUE (BILLIONS)

SECURITIES	$7.8	$3.1	$10.9
1–4 MORTGAGES	$5.0	$3.9	$9.0
OTHER MORTGAGES	$4.3	$13.4	$17.7
COMMERCIAL LOANS	$0.7	$2.6	$3.3
CONSUMER LOANS	$0.6	$0.7	$1.2
REO	$1.1	$4.9	$6.0
OTHER ASSETS	$3.5	$11.8	$15.4
TOTAL ASSETS	**$23.2**	**$40.3**	**$63.5**

Source: FMS (Receiverships) and CADSR (Conservatorships) Balances

NUMBER OF ASSETS

SECURITIES	NA	NA	NA
1–4 MORTGAGES	101,326	249,087	350,413
OTHER MORTGAGES	7,676	25,572	33,248
COMMERCIAL LOANS	84,617	5,579	90,196
CONSUMER LOANS	74,349	78,672	153,021
REO	2,002	12,230	14,232
OTHER ASSETS	NA	NA	NA
TOTAL ASSETS	**269,970**	**371,140**	**641,110**

Source: CTM (Receiverships) and CADSR (Conservatorships) Balances

TOTAL MORTGAGES
CONSERVATORSHIPS AND RECEIVERSHIPS
As of December 31, 1993

BOOK VALUE (BILLIONS)

Asset Type Category	Conservatorships	Receiverships	Total Institutions
PERFORMING 1–4	4.7	2.8	$7.5
NON–PERF 1–4	0.3	1.2	1.5
PERF OTHER	3.3	4.4	7.8
NON–PERF OTHER	1.0	8.9	9.9
TOTAL MORTGAGES	**$9.4**	**$17.3**	**$26.7**

Source: FMS–GL & CTM (Receiverships) and CADSR (Conservatorships) Balances

NUMBER OF LOANS

Asset Type Category	Conservatorships	Receiverships	Total Institutions
PERFORMING 1–4	97,779	216,496	314,275
NON–PERF 1–4	3,547	32,591	36,138
PERF OTHER	6,417	15,448	21,865
NON–PERF OTHER	1,259	10,124	11,383
TOTAL MORTGAGES	**109,002**	**274,659**	**383,661**

Source: CTM (Receiverships) and CADSR (Conservatorships) Balances

DELINQUENCY RATES – MORTGAGES
CONSERVATORSHIPS AND RECEIVERSHIPS
BY NUMBER OF LOANS
As of December 31, 1993

Asset Type Category	Conservatorships	Receiverships	Total Institutions
PERFORMING 1–4	97,779	216,496	314,275
NON–PERF 1–4	3,547	32,591	36,138
PERFORMING OTHER	6,417	15,448	21,865
NON–PERF OTHER	1,259	10,124	11,383
TOTAL 1–4	101,326	249,087	350,413
TOTAL OTHER	7,676	25,572	33,248
TOTAL MORTGAGES	**109,002**	**274,659**	**383,661**
TOTAL PERF	104,196	231,944	336,140
TOTAL NON–PERF	4,806	42,715	47,521

Delinquency Rates (By Number of Loans)			
1–4 MORTGAGES	3.5%	13.1%	10.3%
OTHER MORTGAGES	16.4%	39.6%	34.2%
TOTAL MORTGAGES	4.4%	15.6%	12.4%

Source: CTM (Receiverships) and CADSR (Conservatorships) Balances

DELINQUENCY RATES – MORTGAGES
CONSERVATORSHIPS AND RECEIVERSHIPS
BY BOOK VALUE ($ BILLIONS)
As of December 31, 1993

Asset Type Category	Conservatorships	Receiverships	Total Institutions
PERFORMING 1–4	$4.7	$2.8	$7.5
NON–PERF 1–4	$0.3	$1.2	1.5
PERFORMING OTHER	$3.3	$4.4	7.8
NON–PERF OTHER	$1.0	$8.9	9.9
TOTAL 1–4	5.0	3.9	9.0
TOTAL OTHER	4.3	13.4	17.7
TOTAL MORTGAGES	**$9.4**	**$17.3**	**$26.7**
TOTAL PERF	**$8.0**	**$7.2**	**$15.2**
TOTAL NON–PERF	**$1.3**	**$10.1**	**$11.4**
Delinquency Rates (By Book Value of Loans)			
1–4 MORTGAGES	6.7%	29.4%	16.6%
OTHER MORTGAGES	23.0%	67.0%	56.2%
TOTAL MORTGAGES	14.2%	58.4%	42.9%

Source: CTM (Receiverships) and CADSR (Conservatorships) Balances

TOTAL LOANS
CONSERVATORSHIPS AND RECEIVERSHIPS
As of December 31, 1993

Asset Type Category	Conservatorships	Receiverships	Total Institutions
BOOK VALUE (BILLIONS)			
1-4 MORTGAGES	$5.0	$3.9	$9.0
OTHER MORTGAGES	$4.3	$13.4	$17.7
COMMERCIAL LOANS	$0.7	$2.6	$3.3
CONSUMER LOANS	$0.6	$0.7	$1.2
TOTAL LOANS	**$10.7**	**$20.5**	$31.2

Source: FMS (Receiverships) and CADSR (Conservatorships) Balances

Asset Type Category	Conservatorships	Receiverships	Total Institutions
NUMBER OF LOANS			
1-4 MORTGAGES	101,326	249,087	350,413
OTHER MORTGAGES	7,676	25,572	33,248
COMMERCIAL LOANS	84,617	5,579	90,196
CONSUMER LOANS	74,349	78,672	153,021
TOTAL LOANS	**267,968**	**358,910**	626,878

Source: CTM (Receiverships) and CADSR (Conservatorships)

DELINQUENCY RATES – LOANS
CONSERVATORSHIPS AND RECEIVERSHIPS
As of December 31, 1993

Asset Type Category	Conservatorships	Receiverships	Total Institutions

BOOK VALUE (BILLIONS)

Asset Type Category	Conservatorships	Receiverships	Total Institutions
1–4 MORTGAGES	6.7%	29.4%	16.6%
OTHER MORTGAGES	23.0%	67.0%	56.2%
COMMERCIAL LOANS	20.9%	68.2%	58.0%
CONSUMER LOANS	6.8%	64.4%	37.1%
TOTAL LOANS	**14.2%**	**59.9%**	**44.3%**

Source: FMS (Receiverships) and CADSR (Conservatorships)

NUMBER OF LOANS

Asset Type Category	Conservatorships	Receiverships	Total Institutions
1–4 MORTGAGES	3.5%	13.1%	10.3%
OTHER MORTGAGES	16.4%	39.6%	34.2%
COMMERCIAL LOANS	3.5%	68.5%	7.6%
CONSUMER LOANS	2.8%	57.2%	30.8%
TOTAL LOANS	**3.7%**	**25.5%**	16.2%

Source: CTM (Receiverships) and CADSR (Conservatorships)

CHARTS FOR

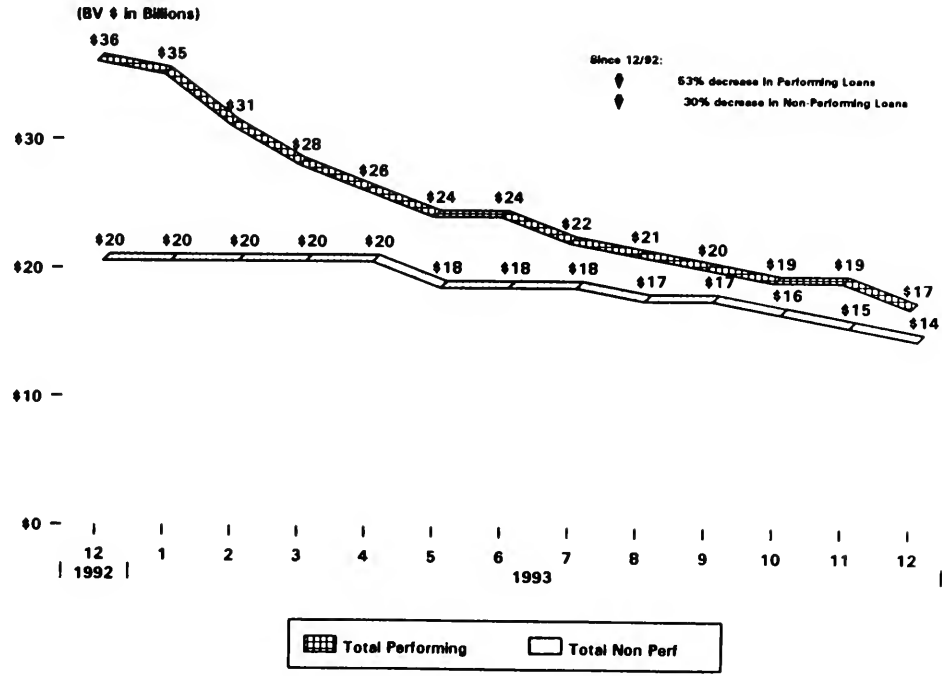
PERFORMING

AND

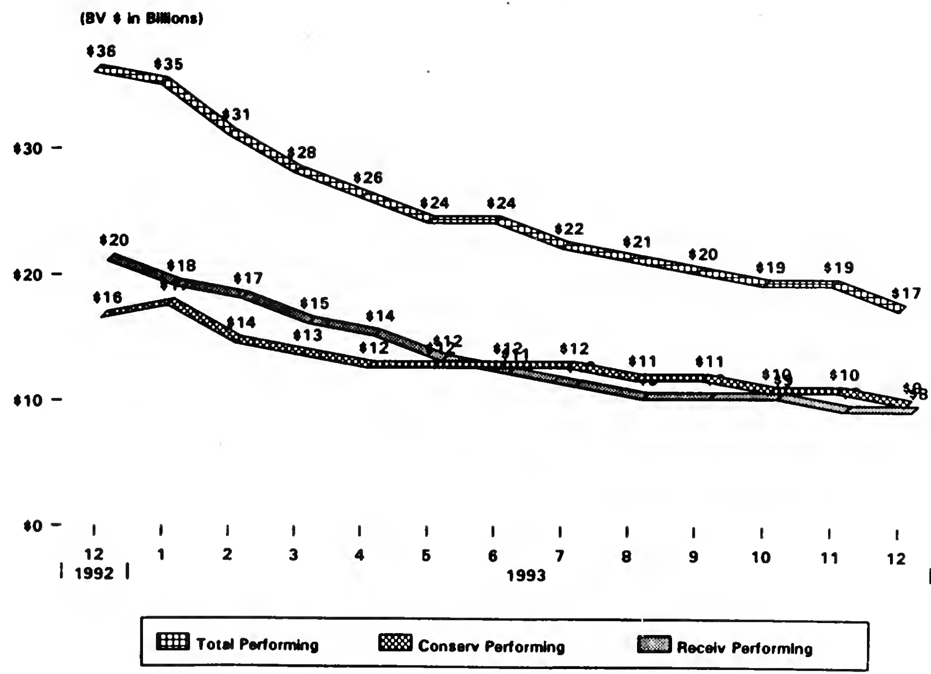
NON-PERFORMING

LOANS

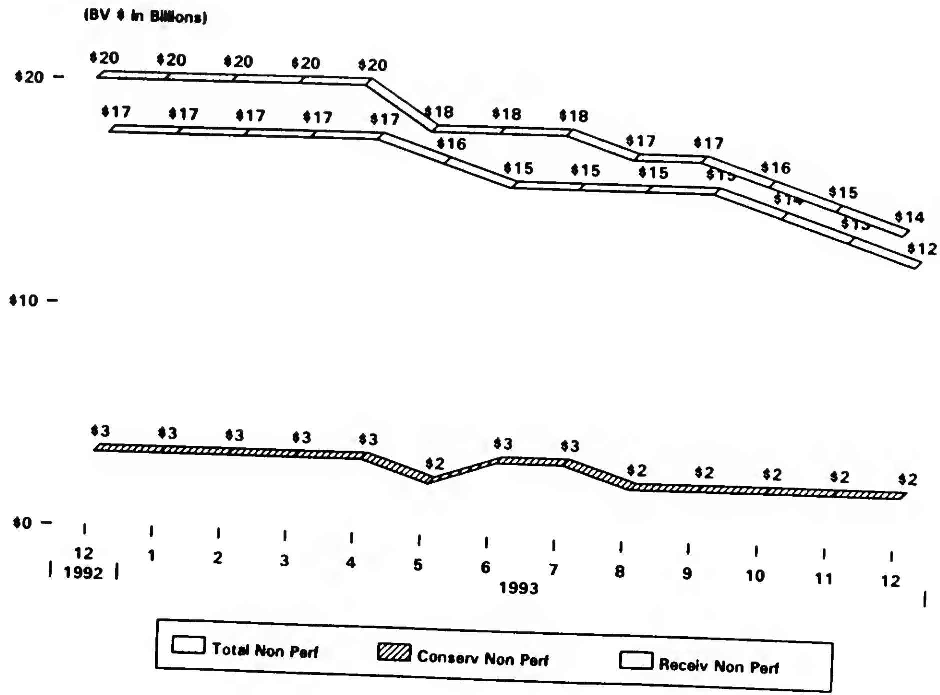
Total Performing & Non-Performing Loans
Month End Balances



Performing Loans
Month End Balances



Non-Performing Loans
Month End Balances



TREND ANALYSIS

FROM DECEMBER 1992 TO DECEMBER 1993

MORTGAGES HELD BY RTC-CONTROLLED INSTITUTIONS
December 1992 to December 1993

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	12-Month Trend Analysis			
														Increase	% Increase	Minimum	Maximum
Active Institutions at Month-End	710	710	709	710	710	710	708	712	702	693	692	681	676	(34)	-3%	676	712
Book Value (Billions)																	
Performing 1-4 mortgages	$13.92	$13.74	$12.18	$10.89	$10.22	$9.59	$9.79	$8.42	$8.82	$8.56	$8.31	$7.90	$7.48	($6.44)	-46%	$7.48	$13.92
Non-performing 1-4 mortgages	$2.36	$2.03	$1.90	$1.73	$1.52	$1.43	$1.55	$1.30	$1.71	$1.76	$1.60	$1.55	$1.49	($0.87)	-37%	$1.43	$2.36
Performing other mortgages	$17.45	$16.57	$14.80	$13.06	$12.04	$10.89	$10.37	$9.32	$9.13	$8.42	$8.25	$8.15	$7.76	($9.69)	-56%	$7.76	$17.45
Non-performing other mortgages	$15.22	$14.92	$15.34	$15.69	$15.55	$14.04	$13.71	$13.56	$12.98	$12.64	$11.72	$10.63	$9.94	($5.28)	-35%	$9.94	$15.69
Total mortgages	$48.95	$47.38	$44.22	$41.36	$39.53	$35.95	$35.42	$33.80	$32.63	$31.57	$29.88	$28.43	$26.67	($22.28)	-46%	$26.67	$48.95
Number of Loans																	
Performing 1-4 mortgages	509,841	497,526	509,081	457,571	454,411	450,539	405,826	377,762	350,166	343,967	325,760	310,186	314,275	(194,566)	-38%	310,186	509,081
Non-performing 1-4 mortgages	52,083	45,839	43,402	40,912	37,522	37,703	39,575	41,813	44,574	40,945	45,102	41,428	36,138	(15,945)	-31%	36,138	52,083
Performing other mortgages	41,924	40,706	41,087	35,843	33,198	31,705	28,161	25,848	23,217	23,765	22,574	31,916	21,865	(20,059)	-48%	21,865	41,924
Non-performing other mortgages	28,466	29,860	16,298	16,200	15,384	15,680	16,587	16,214	14,573	14,547	13,080	11,821	11,383	(17,083)	-60%	11,383	29,860
Total mortgages	631,314	613,938	611,868	550,525	540,515	535,667	490,149	461,337	434,530	423,224	406,316	385,553	383,661	(247,653)	-39%	383,661	631,314
Mean Loan Size																	
Performing 1-4 mortgages	$27,352	$27,823	$23,918	$23,780	$22,495	$21,286	$24,133	$24,839	$25,177	$24,874	$25,507	$25,459	$23,791	($3,561)	-13%	$21,286	$27,623
Non-performing 1-4 mortgages	$45,370	$44,307	$43,846	$42,339	$40,590	$37,875	$39,116	$33,765	$38,296	$42,936	$35,475	$37,294	$41,231	($4,139)	-9%	$35,475	$45,370
Performing other mortgages	$416,134	$406,992	$360,284	$364,349	$362,552	$343,574	$368,098	$360,647	$362,057	$354,092	$365,420	$371,795	$354,768	($61,366)	-15%	$143,574	$416,134
Non-performing other mortgages	$534,638	$499,598	$834,124	$968,272	$1,010,595	$895,133	$826,792	$836,181	$890,757	$868,908	$896,254	$916,505	$873,496	$338,856	63%	$499,598	$1,010,595
Total mortgages	$77,530	$76,978	$72,267	$73,134	$72,760	$67,109	$72,268	$73,202	$75,102	$74,119	$73,505	$73,764	$69,507	($8,024)	-10%	$67,109	$77,530
Delinquency Rates (by BV)																	
1-4 Family Residential Mortgages	14.51%	12.88%	13.52%	13.73%	12.97%	12.96%	13.65%	13.73%	16.22%	17.04%	16.13%	16.36%	16.62%			12.88%	17.04%
Other mortgages	46.59%	47.38%	50.88%	54.57%	56.36%	56.30%	56.95%	59.26%	38.71%	60.03%	58.70%	57.07%	56.18%			46.59%	60.03%
Total mortgages	33.92%	33.86%	38.99%	42.51%	42.40%	43.02%	43.09%	44.55%	45.01%	45.90%	44.59%	43.53%	42.67%			35.86%	45.90%
Delinquency Rates (by Number)																	
1-4 Family Residential Mortgages	9.29%	8.44%	7.86%	8.21%	7.63%	7.72%	8.89%	9.99%	11.29%	10.64%	12.16%	11.78%	10.31%			7.63%	12.16%
Other mortgages	40.44%	42.31%	30.81%	31.13%	31.67%	33.09%	37.07%	38.55%	36.62%	37.97%	36.69%	35.04%	34.24%			30.81%	42.31%
Total mortgages	12.76%	12.33%	10.08%	10.37%	9.79%	9.97%	11.46%	12.59%	13.61%	13.11%	14.31%	13.82%	12.38%			9.79%	14.31%

COMMERCIAL LOANS HELD BY RTC-CONTROLLED INSTITUTIONS

December 1992 to December 1993

														12-Month Trend Analysis			
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Nov-93	Dec-93	$ Increase	% Increase	Minimum	Maximum
Active Institutions at Month-End	710	710	709	710	710	710	708	712	702	693	692	681	678	(34)	-5%	676	712
Book Value ($Billions)																	
Performing commercial loans	$2.83	$2.79	$2.56	$2.46	$2.22	$2.05	$2.06	$1.92	$1.67	$1.67	$1.69	$1.67	$1.40	($1.45)	-51%	$1.40	$2.85
Non-performing commercial loans	$2.29	$2.36	$2.36	$2.39	$2.33	$2.41	$2.09	$2.17	$2.31	$2.18	$2.11	$2.12	$1.93	($0.36)	-16%	$1.93	$2.41
Total commercial loans	$5.14	$5.15	$4.93	$4.84	$4.57	$4.46	$4.15	$4.08	$3.99	$3.84	$3.81	$3.79	$3.33	($1.61)	-35%	$3.33	$5.13
Number of Loans																	
Performing commercial loans	64,926	77,833	66,420	94,866	64,654	66,465	83,451	88,483	88,632	89,189	86,804	84,981	81,632	16,706	26%	64,926	94,866
Non-performing commercial loans	6,760	6,984	6,602	6,109	7,038	7,381	7,986	8,841	8,010	7,492	7,084	6,936	3,575	(3,185)	-47%	3,575	8,841
Total commercial loans	71,686	84,837	93,022	100,975	91,692	93,846	83,437	97,324	96,642	96,681	93,888	91,917	65,207	13,521	19%	71,686	100,975
Mean Loan Size																	
Performing commercial loans	$43,912	$35,862	$28,964	$25,889	$24,213	$23,709	$24,096	$21,665	$18,887	$18,668	$19,504	$19,628	$17,138	($26,774)	-61%	$17,138	$43,912
Non-performing commercial loans	$338,757	$337,486	$357,770	$390,571	$334,328	$326,785	$262,209	$244,882	$288,764	$290,443	$298,419	$305,363	$539,860	$201,103	59%	$244,882	$539,860
Total commercial loans	$71,716	$60,693	$31,809	$47,952	$49,863	$47,546	$44,447	$41,942	$41,233	$39,729	$40,548	$41,189	$39,070	($32,646)	-46%	$39,070	$71,718
Delinquency Rates (by BV)	44.54%	45.78%	47.98%	49.28%	51.47%	54.06%	50.42%	53.04%	58.01%	56.63%	55.33%	55.94%	57.98%			44.34%	30.01%
Delinquency Rates (by Number)	9.43%	8.23%	6.93%	6.05%	7.68%	7.87%	8.53%	9.08%	8.29%	7.73%	7.55%	7.53%	4.20%			4.20%	9.43%

Notes:

The total number of commercial loans increased over five-fold due to the addition of 53,600 commercial loans in December 1992 - mainly due to Carteret. The dramatic decrease in the delinquency rate (by number of loans) is predicated upon Carteret's over-whelming number of performing loans.

CONSUMER LOANS HELD BY RTC-CONTROLLED INSTITUTIONS
December 1992 to December 1993

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Dec-93	12-Month Trend Analysis: Increase	% Increase	Minimum	Maximum
Active Institutions at Month-End	710	710	709	710	710	710	708	712	702	693	692	681	676	(34)	-5%	676	712
Book Value ($Billions)																	
Performing consumer loans	$1.71	$1.90	$1.84	$1.68	$1.53	$1.47	$1.33	$1.24	$1.06	$0.98	$0.94	$0.89	$0.78	($0.93)	-54%	$0.78	$1.90
Non-performing consumer loans	$0.42	$0.41	$0.38	$0.39	$0.36	$0.36	$0.36	$0.35	$0.48	$0.53	$0.53	$0.49	$0.46	$0.05	11%	$0.35	$0.53
Total consumer loans	$2.13	$2.31	$2.21	$2.07	$1.89	$1.83	$1.68	$1.59	$1.54	$1.51	$1.48	$1.39	$1.24	($0.88)	-42%	$1.24	$2.31
Number of Loans																	
Performing consumer loans	572,782	255,091	265,864	242,306	221,054	231,487	168,762	155,815	154,618	142,976	132,260	129,248	105,954	(466,828)	-82%	105,954	572,782
Non-performing consumer loans	72,656	69,588	56,161	64,647	63,174	55,466	54,594	57,139	54,917	55,634	50,860	49,096	47,067	(25,589)	-35%	47,067	72,656
Total consumer loans	645,438	324,679	322,025	306,953	284,228	286,953	223,356	212,954	209,535	198,610	183,120	178,344	153,021	(492,417)	-76%	153,021	645,438
Mean Loan Size																	
Performing consumer loans	$2,991	$7,440	$4,902	$4,938	$4,917	$4,346	$7,869	$7,958	$6,823	$6,875	$7,115	$6,909	$7,390	$4,399	147%	$2,991	$7,958
Non-performing consumer loans	$5,713	$5,949	$4,740	$4,033	$5,699	$4,545	$4,503	$6,106	$8,759	$9,545	$10,499	$10,042	$9,795	$4,083	71%	$5,699	$10,499
Total consumer loans	$3,297	$7,121	$6,875	$4,747	$4,646	$4,384	$7,535	$7,462	$7,331	$7,623	$8,055	$7,771	$8,130	$4,833	147%	$3,297	$8,130
Delinquency Rates (by BV)	19.30%	17.91%	17.12%	18.83%	19.06%	19.61%	21.09%	21.96%	31.32%	33.07%	36.20%	35.57%	37.06%			17.12%	37.06%
Delinquency Rates (by Number)	11.26%	21.43%	17.44%	21.06%	22.23%	19.33%	24.44%	26.83%	26.21%	28.01%	27.77%	27.53%	30.76%			11.26%	30.76%

[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

SUPPLEMENTAL REPORTS

- CONSERVATORSHIPS
- RECEIVERSHIPS

ASSET COMPOSITION OF RTC CONSERVATORSHIPS
AS OF DECEMBER 31, 1993
(BV – DOLLARS IN THOUSANDS)

(Supplemental

10–Feb–94

BASED ON CADSTAR BALANCES

DESCRIPTION	ATLANTA	CALIFORNIA	DALLAS	DENVER	KANSAS CITY	VALLEY FORGE	TOTAL	% OF GRAND TOTAL
MORTGAGE LOANS								
Performing 1–4 Family Mtges.	$1,076,612	$1,356,014	$130,991		$270,628	$1,867,908	$4,702,153	20%
Non–Performing 1–4 Family Mtges.	63,367	146,278	6,799		26,219	93,476	$336,139	1%
All Other Perf. Mortgages (Including Construction & Land, Other Mortgage Loans and 5+ Dwelling)	499,489	874,972	791,383		219,581	961,660	$3,347,085	14%
All Other Non–Perf. Mortgages (Including Construction & Land, Other Mortgage Loans and 5+ Dwelling)	237,567	226,846	97,468		197,728	237,430	$997,039	4%
TOTAL PERFORMING MORTGAGES	$1,576,101	$2,230,986	$922,374		$490,209	$2,829,568	$8,049,238	35%
TOTAL NON–PERFORMING MORTGAGES	$300,934	$373,124	$104,267		$223,947	$330,906	$1,333,178	6%
TOTAL MORTGAGES	$1,877,035	$2,604,110	$1,026,641		$714,156	$3,160,474	$9,382,416	40%
OTHER LOANS								
Performing Commercial Loans	$67,755	$7,705	$2,728		$1,931	$488,884	$569,003	2%
Non–Performing Commercial Loans	17,002	16,017	39,244		6,870	71,190	$150,323	1%
Performing Consumer Loans	153,243	6,730	10,099		42,064	338,163	$550,299	2%
Non–Performing Consumer Loans	12,454	241	655		893	25,874	$40,117	0%
Accrued Interest Receivable	2,900	2,782	413		400	7,449	$13,944	0%
TOTAL PERFORMING OTHER LOANS	$223,898	$17,217	$13,240		$44,395	$834,496	$1,133,246	5%
TOTAL NON–PERFORMING OTHER LOANS	$29,456	$16,258	$39,899		$7,763	$97,064	$190,440	1%
TOTAL OTHER LOANS	$253,354	$33,475	$53,139		$52,158	$931,560	$1,323,686	6%

ASSET COMPOSITION OF RTC CONSERVATORSHIPS
AS OF DECEMBER 31, 1993
(BV – DOLLARS IN THOUSANDS)

(Supplemental

10-Feb-94

BASED ON CADSTAR BALANCES

DESCRIPTION	ATLANTA	CALIFORNIA	DALLAS	DENVER	KANSAS CITY	VALLEY FORGE	TOTAL	% OF GRAND TOTAL
SECURITIES								
Equity Securities	11,813				1,581	35	$13,429	0%
State & Municipal Obligation			10		7,511		$7,521	0%
Other Investment Securities	287,689	749,056	5,058		463,130	226,171	$1,731,104	7%
Other Securities	1,289,278	561,641	171,867		1,405,321	1,370,527	$4,798,634	21%
Government, Agency & Other Interest Received	189,033	340,285	4,499		397,873	358,077	$1,289,767	6%
TOTAL SECURITIES	$1,777,813	$1,650,982	$181,434		$2,275,416	$1,954,810	$7,840,455	34%
REAL ESTATE OWNED								
Repossessed Assets –, Res, Non-Res, Land, Other	248,046	223,006	78,803		142,506	374,932	$1,067,293	5%
Real Estate Investment Res. Non-Res. & Land	9,353	16,769	2,727		1,515	4,013	$34,377	0%
TOTAL REAL ESTATE	$257,399	$239,775	$81,530		$144,021	$378,945	$1,101,670	5%
OTHER FIXED ASSETS								
Office Premises & Equipment	120,840	50,249	36,306		34,823	91,755	$333,973	1%
TOTAL OTHER FIXED ASSETS	120,840	50,249	36,306		34,823	91,755	$333,973	1%
OTHER ASSETS								
Equity Investment and Unsecured loans	100,506	194,533	526,780		176,866	212,476	$1,211,161	5%
Other Assets	779,804	452,462	76,072		250,916	415,008	$1,974,262	9%
TOTAL OTHER ASSETS	$880,310	$646,995	$602,852		$427,782	$627,484	$3,185,423	14%
GRAND TOTAL	$5,166,751	$5,225,586	$1,981,902		$3,648,356	$7,145,028	$23,167,623	100%

ASSET COMPOSITION OF RTC RECEIVERSHIPS

(Supplemental
10-Feb-94

As of December 31, 1993
(BOOK VALUE – DOLLARS IN THOUSANDS)

Data based on FMS and CTM SSR balances

ASSET TYPES	ATLANTA	CALIFORNIA	DALLAS	DENVER	KANSAS	V. FORGE	TOTAL	PERCENT OF GR TOTAL
MORTGAGE LOANS (3A-3J)								
Performing 1-4 Family Mtges.	$781,877	$496,801	$332,795	$143,513	$508,903	$510,818	$2,774,709	7%
Non-Performing 1-4 Family Mtges.	$423,507	$186,187	$120,172	$93,868	$28,206	$301,642	$1,153,582	3%
Performing 5+ Family Mtges.	$229,372	$436,660	$315,069	$106,487	$150,314	$106,553	$1,344,454	3%
Non-Performing 5+ Family Mtges.	$405,730	$479,079	$373,727	$305,886	$119,374	$140,834	$1,824,630	5%
Performing Commercial Mtges. (Non-Land)	$379,106	$435,940	$330,573	$228,063	$377,897	$541,996	$2,293,575	6%
Non-Performing Commercial Mtges. (Non-Land)	$868,639	$451,640	$447,048	$548,533	$503,695	$904,204	$3,723,759	9%
Performing Residential Construction	$4,164	$24,632	$4,443	$807	$2,459	$42,117	$78,623	0%
Non-Performing Residential Construction	$120,504	$182,580	$16,259	$77,186	$4,908	$402,784	$804,223	2%
Performing Non-Residential Construction	$20,070	$26,780	$53		$655	$52,724	$100,281	0%
Non-Performing Non-Residential Construction	$250,855	$41,453	$13,182	$109,969	$6,981	$111,794	$534,234	1%
Performing Raw Land	$102,798	$75,041	$194,384	$66,402	$40,896	$154,527	$634,048	2%
Non-Performing Raw Land	$383,643	$235,419	$552,415	$905,379	$58,453	$171,881	$2,307,190	6%
Loans in Process & Other Performing Mtgs.	$21,736	($59,365)	($99)	($604)	($11,217)	($35,679)	($85,228)	0%
Loans in Process & Other Non-Performing Mtgs.	($44,714)	($22,818)		($132,100)	($82)	($4,023)	($203,739)	-1%
TOTAL PERFORMING MORTGAGES	$1,539,124	$1,436,487	$1,177,218	$544,670	$1,069,908	$1,373,056	$7,140,462	18%
TOTAL NON-PERFORMING MORTGAGES	$2,408,163	$1,533,540	$1,522,804	$1,908,721	$721,535	$2,029,117	$10,143,879	25%
TOTAL MORTGAGES	$3,947,287	$2,990,027	$2,700,022	$2,453,391	$1,791,442	$3,402,172	$17,284,341	43%

ASSET COMPOSITION OF RTC RECEIVERSHIPS

(Supplemental
10-Feb-94

As of December 31, 1993
(BOOK VALUE - DOLLARS IN THOUSANDS)

Data based on FMS and CTM SSR balances

ASSET TYPES	ATLANTA	CALIFORNIA	DALLAS	DENVER	KANSAS	V. FORGE	TOTAL	PERCENT OF GR TOTAL
OTHER LOANS (1A-1C,4A-4H,5Y)								
Performing Commercial Loans	$252,340	$118,032	$174,449	$50,635	$65,312	$169,428	$830,195	2%
Non-Performing Commercial Loans	$542,489	$95,909	$266,031	$237,301	$246,331	$391,683	$1,779,745	4%
Performing Mobile Home Loans	$6,457	$59,376	$1,432	$907	$540	$11,880	$80,592	0%
Non-Performing Mobile Home Loans	$1,693	$8,576	$1,570	$672	$701	$3,415	$16,627	0%
Performing Home Improvement Loans	$6,687	$1,773	$11,594	$884	$17,979	$7,825	$46,742	0%
Non-Performing Home Improvement Loans	$7,148	$561	$5,223	$848	$2,784	$6,106	$22,670	0%
Performing Auto Loans	$10,878	$2,240	$40	$599	$488	$973	$15,219	0%
Non-Performing Auto Loans	$4,147	$196,021	$962	$1,484	$544	$2,576	$205,733	1%
Performing Education/Student Loans	$1,740	$185	$82	$537	$860	$9,042	$12,445	0%
Non-Performing Education/Student Loans	$1,937	$389	$529	$417	$750	$10,689	$14,711	0%
Other Performing Consumer Loans	$35,072	$4,639	$16,912	$3,449	$11,578	$27,208	$98,857	0%
Other Non-Performing Consumer Loans	$26,501	$7,866	$48,005	$9,512	$5,453	$42,539	$139,876	0%
TOTAL PERFORMING OTHER LOANS	$313,173	$186,246	$204,507	$57,010	$96,757	$226,356	$1,084,049	5%
TOTAL NON-PERFORMING OTHER LOANS	$583,915	$309,324	$322,320	$250,234	$256,562	$457,008	$2,179,363	5%
TOTAL OTHER LOANS	$897,088	$495,570	$526,827	$307,244	$353,319	$683,364	$3,263,412	8%

ASSET COMPOSITION OF RTC RECEIVERSHIPS

(Supplemental
10-Feb-94

As of December 31, 1993
(BOOK VALUE - DOLLARS IN THOUSANDS)

Data based on FMS and CTM SSR balances

ASSET TYPES	ATLANTA	CALIFORNIA	DALLAS	DENVER	KANSAS	V. FORGE	TOTAL	PERCENT OF GR TOTAL
SECURITIES (2A-2J)								
U.S. Treasury Debt	$117,584	$710,005	$53,655	$70,401	$139,509	$41,944	$1,133,097	3%
U.S. Agency Debt	$185	$312	$25	$1	$10,472	$583	$11,578	0%
Agency Insured/Guaranteed. Mtg. Pool Securities	$68,507	$61,980	$20,896	$21,802	$26,774	$27,730	$227,690	1%
State & Local Government Debt	$1,989	$21,563	$10,758	$6,888	$446	$1,406	$43,051	0%
Corporate & High Yield Debt	$98,767	$595,624	$27,235	$39,676	$101,056	$129,979	$992,337	2%
Mortgage Derivative Securities	$8,268	$102,069	$747	$12,603	$3,863	$9,858	$137,407	0%
Uninsured Mortgage Pool Securities	$85,724	$71,625	$539	$7,337	$44,376	$61,123	$270,725	1%
Equities & Mutual Funds	$4,864	$23,666	$3,971	$878	$14,457	$9,741	$57,577	0%
Other Securities	$8,127	$152,955	$15,460	$9,995	$1,119	$636	$188,292	0%
TOTAL SECURITIES	$394,016	$1,739,799	$133,285	$169,581	$342,073	$282,999	$3,061,754	8%
REAL ESTATE (5A-5F,6A)								
1-4 Family Dwellings	$105,380	$75,460	$67,889	$18,354	$53,908	$85,922	$404,913	1%
5+ Family Dwellings	$42,254	$166,128	$395,838	$30,187	$42,413	$104,422	$781,241	2%
Nonresidential Real Estate & Land	$356,095	$377,407	$1,564,944	$577,070	$222,655	$284,672	$3,382,843	8%
Office Premises (Buildings & Land)	$48,694	$142,853	$8,757	$18,833	$25,383	$38,209	$282,729	1%
Other Real Estate								
TOTAL REAL ESTATE	$552,422	$761,848	$2,037,428	$642,444	$344,359	$513,225	$4,851,727	12%

(Supplemental
10-Feb-94

ASSET COMPOSITION OF RTC RECEIVERSHIPS

As of December 31, 1993
(BOOK VALUE - DOLLARS IN THOUSANDS)

Data based on FMS and CTM SSR balances

ASSET TYPES	ATLANTA	CALIFORNIA	DALLAS	DENVER	KANSAS	V. FORGE	TOTAL	PERCENT OF GR TOTAL
OTHER FIXED ASSETS (6B-6C,5G)								
Furn./Fixtures/Equipment/Vehicles	$209	$23,166	$12,913	$11,389	$595	$12,997	$61,270	0%
Leasehold Improvements	$1,011	$33,882	$194		$2,218	$1,504	$38,809	0%
Other Repossed Assets	$5,019	$1,213	$36,208	$165	$2,050	$3,881	$48,536	0%
TOTAL OTHER FIXED ASSETS	$6,240	$58,261	$49,315	$11,553	$4,864	$18,382	$148,615	0%
OTHER ASSETS (7A-7B,9A-9B)								
Equity Investments in Subsidiaries	$312,751	$778,358	$362,540	($31,169)	$167,398	$273,471	$1,863,349	5%
Other Investments in Subsidiaries	$666,519	$551,883	$1,099,384	$720,235	$82,880	$329,366	$3,450,267	9%
Purchased Loan Servicing Rights	$246		$7,668	$6,291	$304	$1,092	$15,601	0%
Performing Mortgages in Conversion								
Properties Leased to Others	($264)	$25	$90		$6,548		$6,400	0%
Other	$152,476	$1,093,467	$201,361	$169,497	$204,653	$86,863	$1,908,317	5%
Charged-off/Deficiencies	$50,931	$1,871	$1,968,626	$134,843	$59,827	$143,599	$2,359,696	6%
TOTAL OTHER ASSETS	$1,182,659	$2,425,603	$3,659,669	$999,696	$521,610	$834,392	$9,603,629	24%
JUDGMENTS (8A)	$11,854	$24,561	$1,720,571	$77,519	$246,019	$6,120	$2,086,644	5%
GRAND TOTAL	$4,991,565	$8,495,669	$10,807,116	$4,661,429	$5,603,686	$5,740,654	$40,300,121	100%

ATTACHMENT VIII.

GAO

United States General Accounting Office

Fact Sheet for the Honorable Kent Conrad, U.S. Senate

January 1992

RESOLUTION TRUST CORPORATION

Recoveries on Asset Sales

GAO/GGD-92-36FS

Record 6569

GAO

United States
General Accounting Office
Washington, D.C. 20548

GA/FSH/GGD-93-51FS

General Government Division

B-247165

January 8, 1992

The Honorable Kent Conrad
United States Senate

Dear Senator Conrad:

On September 10, 1991, you requested specific information related to the costs of resolving failed thrifts. Specifically, you asked us to (1) assess a recent Los Angeles Times article's conclusion that the Resolution Trust Corporation (RTC) will lose 40 cents per dollar on asset sales, (2) determine whether RTC has sufficient information on actual sales values to date, and (3) assess whether RTC needs additional funds because of the estimated recoveries. This fact sheet responds to your request.

You also requested information on the types of litigation generated by the thrift industry crisis. We will provide this information in a separate report.

ESTIMATED LOSSES ON ASSET SALES

A July 14, 1991, Los Angeles Times article concluded that the variance between the book value of failed thrifts' assets and their actual sales price could add billions of dollars to the cost of resolving the thrift industry crisis. The Times' study, which compared book value to estimated recovery value in asset management contracts, indicated that RTC may lose 40 cents per dollar of book value. This study also showed that RTC estimated the assets under contract would bring about $25 billion when sold--$15 billion less than the $40 billion listed on the thrifts' books. The article stated that projecting the 60-percent recovery rate to another $124 billion in assets that are not yet under contract suggested that losses were likely to grow another $49 billion.

Because of time constraints, we did not validate the Times' figures, which the article said were based on an analysis of more than 20,000 contracts. However, we did determine RTC's practices for recording receivership asset values and estimated losses for conservatorships, receiverships, and certain institutions not yet under RTC control. We also analyzed RTC's automated real estate data to determine actual sales experience. Generally, we found that RTC's recovery rates approximated the rate cited in the article.

RTC Practices for Recording Book Value and Estimated Losses

Receiverships are separate legal entities created to windup the affairs of failed thrifts. This includes managing and selling the assets of these thrifts and paying off their creditors. RTC records remaining assets on the receiverships' books at the book value used by the failed thrifts. RTC also accounts for the probability of not selling the receiverships' assets at book value. Accordingly, RTC records an estimated loss on receivership assets on the corporate books.

RTC records an additional estimated loss for assets of thrifts that are in conservatorship or that are identified by the Office of Thrift Supervision as "watch list" institutions. Conservatorships are thrifts that are controlled by RTC and operated as going concerns. Watch list institutions are thrifts that will probably require government assistance and that are expected to be transferred to RTC. As of December 31, 1990, RTC recorded a total of about $100 billion as the estimated loss for all receiverships, conservatorships, and institutions on the watch list. RTC also noted in its 1990 financial statements the possibility that another group of "troubled" thrifts might require government assistance and could result in additional losses to RTC of as much as $60 billion.

RTC computes losses on receivership assets by estimating asset recovery values that are based on appraisals or other standard valuation procedures. In calculating losses on conservatorships and watch list institutions, RTC assumes that it will recover approximately the same percentage of book value on sales from these thrifts as from those already closed. RTC also adjusts the recovery values periodically. RTC plans to value assets quarterly in order to provide the most current estimates of market value. As of December 31, 1990, RTC used an overall estimated recovery value of about 65 cents per dollar. RTC revised this value to about 60 cents on June 30, 1991. (See app. I for RTC's recovery rates.)

RTC'S SALES INFORMATION

RTC does not have sufficient historical sales experience to evaluate the reasonableness of asset recovery estimates. It is in the process of developing the following systems, which RTC officials said will have the capability to provide the needed valuation information:

-- The Real Estate Owned Management System (REOMS) is to maintain an inventory of RTC-owned real estate.

-- The Loans and Other Assets Inventory System is to consolidate RTC assets data from numerous loan processing record systems.

-- The Asset Manager System (AMS) is to maintain receipt and disbursement information on assets under asset management agreements.

-- The Control Totals Module of the AMS is to provide asset balances and a means to reconcile accounting information.

-- The Furniture, Fixtures, and Equipment System is to maintain a nationwide inventory of furniture, fixtures, equipment, and other personal property maintained by RTC.

These systems are in various stages of completion. In connection with our 1991 RTC financial audit, we plan to monitor whether RTC will be able to provide sufficient sales and other valuation information.

Although RTC has not completed automation of sales information on all asset types, we obtained and analyzed data as of October 5, 1991, from REOMS. Our analysis showed that RTC realized an average of 64 cents per dollar of real estate owned (REO) that was sold. Residential property yielded the highest return, 72 cents per dollar, and commercial property and land yielded 61 cents and 59 cents per dollar, respectively. Overall, assets that were sold in conservatorship yielded about the same amounts as assets sold in receivership. (See app. II.)

In addition to the actual sales results for real estate assets, our analysis showed the following:

-- Real estate values have declined substantially from the original book values recorded by former thrifts. Single family residences have declined the least, a 13-percent difference from book value to appraised value. Land has declined the most, a 29-percent difference from book value to appraised value. Commercial property has declined 22 percent. However, about 44 percent of the appraised values came from appraisals that were over 1 year old. Therefore, the appraised values may not accurately reflect current market conditions. (See apps. III and IV.)

-- Overall, the sale amount of real estate assets yielded 11 percent less than the appraised value. (See app. V.)

-- RTC's selling costs (the difference between the sale amount and the net proceeds) equalled about 10 percent of the sale price. (See app. VI.)

FUNDING REQUIREMENTS

As we stated in our October 1991 RTC financial audit report, the amount of additional funding that RTC will require depends on a number of factors.[1] They include the outcome of economic uncertainties, the recovery value of assets, and the number and timing of additional thrift failures. Faced with these uncertainties, no one can say how much money will eventually be needed to cover the cost of the thrift industry cleanup.

OBJECTIVES, SCOPE, AND METHODOLOGY

To respond to your request, our objectives were to (1) assess the Times article's conclusion that RTC will lose 40 cents per dollar on asset sales, (2) determine whether RTC has sufficient information on actual sales results to date, and (3) assess whether RTC needs additional funds because of the estimated recoveries. To obtain the needed information, we analyzed data in RTC's REOMS as of October 5, 1991 to determine the percentage of book value being realized on sales. We did not verify the computerized data. However, we made some assessment of completeness and accuracy. Accordingly, we excluded cases that had missing, invalid, or apparently erroneous data. We also obtained information on RTC's practices for recording asset values and estimated losses from our financial audit reports.

We discussed the results of our work with appropriate RTC officials who agreed with the facts presented in this fact sheet. Their comments have been incorporated into the fact sheet where appropriate. We did our work from November through December 1991 in accordance with generally accepted government auditing standards.

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We are also sending this fact sheet to RTC's Chief Executive Officer, the Chairman of the RTC Oversight Board, and interested congressional committees. We will also make copies available to others upon request.

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[1]Financial Audit: Resolution Trust Corporation's 1990 Financial Statements (GAO/AFMD-92-20, Oct. 25, 1991).

B-247165

This fact sheet was prepared under the direction of Gaston L. Gianni, Associate Director, Federal Management Issues, who may be reached on (202) 736-0479 if you or your staff have any questions. Other major contributors are listed in appendix VII.

Sincerely yours,

J. William Gadsby
Director, Federal
Management Issues

RTC RECOVERY RATES

Asset category	December survey recovery rate (Cents per Dollar of Value)	June survey recovery rate (Cents per Dollar of Value)	June asset balances (Dollars in Millions)	Percentage of total assets
Other securities	77.0	100.0[a]	$ 1,589	2.2%
Mortage-backed securities	91.4	100.0[a]	1,215	1.7
Junk bonds	47.5[a]	73.4[a]	1,092	1.5
Performing 1-4 family mortgages	85.4	81.4	14,295	20.1
Nonperforming 1-4 family mortages	58.9	54.6	2,395	3.2
Performing multifamily mortgages	77.0	74.4	3,597	5.1
Nonperforming multifamily mortgages	51.3	52.9	2,476	3.5
Performing construction mortgages	90.6	72.0	3,067	4.3
Nonperforming construction mortgages	60.5	28.0	3,298	4.6
Performing land mortgages	65.4	60.8	566	0.6
Nonperforming land mortages	36.3	15.9	2,915	4.1
Performing commercial loans	80.7	76.3	8,614	12.1
Nonperforming commercial loans	36.5	43.7	4,150	5.8
Performing consumer loans	82.7	79.2	2,372	3.3
Nonperforming consumer loans	9.3	46.8	391	0.6
REO and other real estate	36.5	36.4	10,200	14.4
Fixed assets	30.5	19.3	731	1.0
Subsidiary equity	62.9	43.5	3,033	4.3
Subsidiary loans	62.9	47.9	1,624	2.3
Other assets	55.4	53.3	2,302	3.2
Judgments and charge-offs	0.0	0.0	1,163	1.6
Estimated recovery value	64.5[b]	59.7	$71,015	100.0%

Note: Estimated national recovery rates based on December 31, 1990, and June 30 1991, asset survey data net of indirect expenses.

[a] These recoveries were not based on asset survey data. They were supplied by the Capital Markets Group.

[b] Based on the distribution of assets on December 31, 1990.

Source: RTC Office of Corporate Finance.

RTC ACTUAL REAL ESTATE
SALES RESULTS AS OF
OCTOBER 5, 1991
(Dollars in Billions)

	Number of assets	Book value	Net proceeds	Percent reduction
Conservatorship				
Single family	6,564	$0.545	$0.397	27%
Land	876	0.182	0.118	35
Commercial	574	0.719	0.410	43
Total	8,014	$1.446	$0.925	36%
Receivership				
Single family	6,986	$0.509	$0.360	29%
Land	888	0.247	0.136	45
Commercial	709	0.735	0.471	36
Total	8,583	$1.491	$0.967	35%
Combined				
Single family	13,550	$1.054	$0.757	28%
Land	1,764	0.429	0.255	41
Commercial	1,283	1.455	0.882	39
Total	16,597	$2.938	$1.894	36%

Note: Although REOMS indicated 28,637 assets had sold, we excluded cases that had missing, invalid, or apparently erroneous book values, appraised values, sale amounts, net proceeds, appraisal dates, or sale dates.

Source: REOMS as of October 5, 1991.

RTC BOOK VALUE COMPARED WITH
LATEST APPRAISED VALUE
(Dollars in Billions)

	Number of assets	Book value	Appraised value	Percent reduction
Conservatorship				
Single family	10,190	$1.5	$1.3	13%
Land	2,069	1.2	1.0	17
Commercial	1,477	2.8	2.3	18
Total	13,736	$5.5	$4.6	16%
Receivership				
Single family	21,299	$1.6	$1.4	13%
Land	7,049	5.1	3.5	31
Commercial	5,031	7.2	5.5	24
Total	33,379	$13.9	$10.4	25%
Combined				
Single family	31,489	$3.1	$2.7	13%
Land	9,118	6.3	4.5	29
Commercial	6,508	10.0	7.8	22
Total	47,115	$19.4	$15.0	23%

Note: Although REOMS shows 69,332 assets, we excluded cases that had missing, invalid, or apparently erroneous book values, appraised values, sale amounts, net proceeds, appraisal dates, or sale dates.

Source: REOMS as of October 5, 1991.

AGE OF RTC APPRAISALS
(Age in Months)

	Total Assets	0-6	7-12	13-18	19-24	Over 24
All REO						
Conservatorship	13,736	5,201	5,002	2,267	678	588
Receivership	33,379	5,022	10,971	9,903	4,729	2,754
Total	47,115	10,223	15,973	12,170	5,407	3,342
Percent under/over 1 yr			56 %		44 %	
REO sold						
Conservatorship	8,014	3,897	2,858	951	166	142
Receivership	8,583	2,636	3,429	1,855	460	203
Total	16,597	6,533	6,287	2,806	626	345
Percent under/over 1 yr			77 %		23 %	
Unsold REO						
Conservatorship	5,722	1,304	2,144	1,316	512	446
Receivership	24,796	2,386	7,542	8,048	4,269	2,551
Total	30,518	3,690	9,686	9,364	4,781	2,997
Percent under/over 1 yr			44 %		56 %	

Note: We excluded cases that had missing, invalid, or apparently erroneous book values, appraised values, sale amounts, net proceeds, appraisal dates, or sale dates.

Source: REOMS as of October 5, 1991.

RTC APPRAISAL COMPARED WITH SALE AMOUNT
(Dollars in Billions)

	Number of assets	Appraisal amount	Sale amount	Percent reduction
Conservatorship				
Single family	6,564	$0.477	$0.440	8%
Land	876	0.132	0.130	2
Commercial	574	0.527	0.461	13
Total	8,014	$1.136	$1.031	9%
Receivership				
Single family	6,986	$0.462	$0.407	12%
Land	888	0.170	0.150	12
Commercial	709	0.594	0.518	13
Total	8,583	$1.226	$1.075	12%
Combined				
Single family	13,550	$0.939	$0.847	10%
Land	1,764	0.302	0.279	8
Commercial	1,283	1.121	0.978	13
Total	16,597	$2.362	$2.104	11%

Note: Although REOMS indicated that 28,637 assets had sold, we excluded cases that had missing, invalid, or apparently erroneous book values, appraised values, sale amounts, net proceeds, appraisal dates, or sale dates.

Source: REOMS as of October 5, 1991.

RTC SALE AMOUNT COMPARED WITH NET PROCEEDS
(Dollars in Billions)

	Number of assets	Sale amount	Net proceeds	Percent reduction
Conservatorship				
Single family	6,564	$0.440	$0.397	10%
Land	876	0.130	0.118	9
Commercial	574	0.461	0.410	11
Total	8,014	$1.031	$0.925	10%
Receivership				
Single family	6,986	$0.407	$0.360	12%
Land	888	0.150	0.136	9
Commercial	709	0.518	0.471	9
Total	8,583	$1.075	$0.967	10%
Combined				
Single family	13,550	$0.847	$0.757	11%
Land	1,764	0.279	0.255	9
Commercial	1,283	0.978	0.882	10
Total	16,597	$2.104	$1.894	10%

Note: Although REOMS indicated 28,637 assets had sold, we excluded cases that had missing, invalid, or apparently erroneous book values, appraised values, sale amounts, net proceeds, appraisal dates, or sale dates.

Source: REOMS as of October 5, 1991.

MAJOR CONTRIBUTORS TO THIS FACT SHEET

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(247060)

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ATTACHMENT IX.

RTC

RESOLUTION TRUST CORPORATION

Resolving The Crisis
Restoring The Confidence

February 10, 1994

MEMORANDUM TO: Henry W. Abbot
Senior Asset Specialist
Office of Subsidiary and Asset Management
Department of Asset Management

FROM: Richard Sassoon
Management Reporting Office
Office of Field Accounting and Asset Operations

SUBJECT: Loan Portfolio Reports as of 12/31/93

Attached are the Receivership Loan Portfolio Reports as of 12/31/93.

Reports 3 through 12 provide information related to major servicers. Major servicers, for purposes of these reports, are servicers who are servicing loan portfolios with an aggregate net book value of $250 million or more. In reports 3 through 6, and reports 9 through 12, the Servicer name is used to make the determination; in reports 7 and 8, the Servicer Tax ID is used.

Highlights

1. About 53% of all loans (81% by book value) are being serviced by Major Servicers (see attached pie charts).

2. 76% of loans serviced by major servicers are performing; these constitute 35% of the total net book value being serviced by major servicers.

3. About 96% of Multi-family Residential Mortgages are performing. In contrast, only 9% of the Student Loans (18% by book value) are performing.

4. Wendover Funding is servicing the largest number of loans: 38,566, or 11% of all RTC loans.

5. The loans serviced by the EDS Meta, WAC JV Partnership constitute 12% of the total RTC loan book value - the largest in terms of book value for any servicer.

1735 North Lynn Street Rosslyn, Virginia 22209

If you have any questions, please call me on (8-7675).

Attachments

cc: Mr. Thompson
Mr. Wigand
Mr. Bodi
FAAO Chiefs

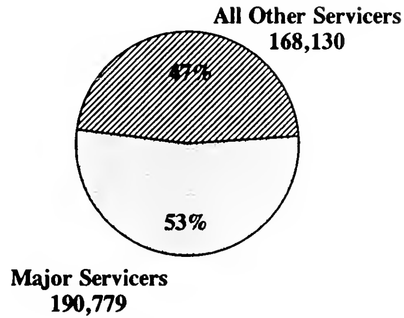
Table of Contents

RTC RECEIVERSHIPS
LOAN PORTFOLIO REPORTS SUMMARY
As of December 1993
(Dollars in thousands)

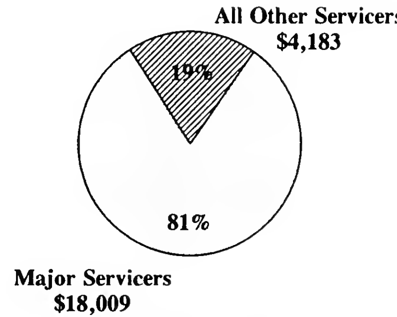
	Major Servicers (by Servicer Name)*		Major Servicers (by Servicer Tax ID)*		All Servicers		
	Asset Count	Net Book Value	Asset Count	Net Book Value	Asset Count	Net Book Value	
Reports	*5,6,10*	*3,4,9*	*8*	*7*	*2*	*1*	
Atlanta	35,091	$4,297,034	35,599	$4,307,187	77,745	$5,372,842	
California	60,114	$3,093,524	62,324	$3,223,132	100,007	$3,726,316	
Dallas	30,444	$3,032,799	34,424	$3,140,212	51,175	$3,838,920	
Denver	24,757	$2,518,923	24,842	$2,629,552	30,948	$2,716,461	
Kansas City	15,112	$1,488,265	16,177	$1,522,409	44,495	$2,233,791	
Valley Forge	25,261	$3,578,013	25,479	$3,594,092	54,539	$4,303,169	
Reports	*11*	*11*			*2*	*1*	
Seller Financing	167,630	$14,080,696			4,205	$1,254,167	
Mortgages	4,171	$1,080,316			270,453	$17,405,816	
Commercial Loans	4,747	$2,662,679			5,579	$2,910,874	
Consumer Loans	14,231	$184,867			78,672	$620,641	
Reports	*10,12*	*9,12*					
1-4 Fmly. Res. Mtge.	152,605	$2,680,471					$17,564
Commercial Loan	4,747	$2,662,679					$650,000
Commercial Mortgage	19,196	$12,480,540					
Consumer Loan	14,231	$184,867					
Reports	*11,12*	*11,12*					
Performing	145,405	$6,356,950					
Non-performing	45,374	$11,651,608					
Total	190,779	$18,008,558	198,845	$18,416,584	358,909	$22,191,49	

*Asset counts and book values shown by Servicer Name and Servicer Tax ID do not balance due to the fact that, in several cases, a single Tax ID can be associated with two or more Servicer Names. In fact, at present, CTM contains 2,333 Names associated with just 1,681 Tax ID's.

Loan Portfolio Distribution
By Major and All Other Servicers
As of December 31, 1993



Loan count



Net book value

20 of 847 Servicers are Major Servicers

Note: Servicers were grouped by name

Report 1

RTC Receiverships

Loan Servicing Portfolio Summary Report

Net Book Value by Loan Type*

For month ending December 1993

($ in thousands)

Loan Type	Atlanta	California	Dallas	Denver	Kansas City	Valley Forge	Total Loans
1–4 Residential Seller Financing	$19,212	$7,728	$29,437	$15,448	$16,901	$14,146	$102,872
M–F Residential Seller Financing	$15,360	$147,681	$128,315	$24,395	$15,671	$9,136	$340,557
Commercial Mortgage Seller Financing	$159,351	$163,086	$272,918	$105,584	$70,884	$38,914	$810,738
Total Seller Financing	**$193,923**	**$318,495**	**$430,671**	**$145,427**	**$103,455**	**$62,196**	**$1,254,167**
1–4 Residential Mortgage	$1,434,098	$747,662	$469,944	$225,788	$616,816	$818,680	$4,312,988
M–F Residential Mortgage	$441,893	$786,945	$754,956	$369,326	$257,068	$260,993	$2,871,182
Commercial Mortgage	$2,181,336	$1,427,413	$1,560,577	$1,648,018	$915,669	$2,488,633	$10,221,646
Total Mortgages	**$4,057,327**	**$2,962,020**	**$2,785,476**	**$2,243,131**	**$1,789,554**	**$3,568,307**	**$17,405,816**
Commercial Loans	**$1,039,260**	**$200,923**	**$509,187**	**$308,719**	**$299,483**	**$553,301**	**$2,910,874**
Installment Loans	$74,520	$244,358	$109,728	$18,349	$39,564	$99,574	$586,093
Student Loans	$7,812	$519	$3,858	$834	$1,735	$19,791	$34,548
Total Consumer Loans	**$82,332**	**$244,877**	**$113,585**	**$19,183**	**$41,299**	**$119,365**	**$620,641**
[illegible]	[illegible]	[illegible]	[illegible]	$2,716,461	$2,233,791	$4,303,169	$22,191,498

* Net Book Value = Gross Book Value less Participating Amount.

Contact	Sources	Worksheet	Printed
Richard Sessoms 703–908–7675	CTM Statistical information	w01.wk1	08–Feb–94 03:56 PM

Report 2

RTC Receiverships

Loan Servicing Portfolio Summary Report

Number of Loans by Loan Type

For month ending December 1993

Loan Type	Atlanta	California	Dallas	Denver	Kansas City	Valley Forge	Total Loans
1-4 Residential Seller Financing	695	102	1,118	525	577	121	3,138
M-F Residential Seller Financing	15	49	112	24	23	5	228
Commercial Mortgage Seller Financing	105	111	436	103	66	18	839
Total Seller Financing	**815**	**262**	**1,666**	**652**	**666**	**144**	**4,205**
1-4 Residential Mortgage	58,598	67,204	26,009	25,775	34,531	33,832	245,949
M-F Residential Mortgage	629	1,536	664	333	396	547	4,105
Commercial Mortgage	4,217	2,131	5,775	1,750	2,345	4,181	20,399
Total Mortgages	**63,444**	**70,871**	**32,448**	**27,858**	**37,272**	**38,560**	**270,453**
Commercial Loans	**1,957**	**229**	**1,224**	**324**	**438**	**1,407**	**5,579**
Installment Loans	8,057	28,414	13,830	1,793	5,179	6,855	64,128
Student Loans	3,472	231	2,007	321	940	7,573	14,544
Total Consumer Loans	**11,529**	**28,645**	**15,837**	**2,114**	**6,119**	**14,428**	**78,572**
[illegible]	77,745	100,007	51,175	30,948	44,495	54,539	338,909

Contact	Sources	Worksheet	Printed
Richard Sesecon 703-908-7675	CTM Statistical Information	w01.wk1	08-Feb-94 03:35 PM

Report 3

RTC Receiverships

Loan Servicing Portfolio Summary Report

Net Book Value by Major Loan Servicer

For the month ending December 1993

($ in thousands)

(Alpha sort)

[illegible]	ATLANTA	CALIFORNIA	DALLAS	DENVER	KANSAS CITY	VALLEY FORGE	TOTAL
ATLANTIC ASSET MANAGEMENT COMPANY	$1,398	$33,547		$1,358,698	$4,725		$1,398,368
EDS, META, WAC JV PARTNERSHIP	$1,649,174				$16,381	$908,395	$2,573,950
EDS,META,WAC JV PARTNERSHIP	$978,691					$1,730	$980,421
ELECTRONIC PAYMENT SYSTEMS, INC.		$19,139		$455,142	$150		$474,431
EQUITABLE REAL ESTATE	$952	$1,266,811	$22,784	$212,789			$1,503,336
EQUITABLE REAL ESTATE-ATLANTA GA	$253,142	$150,596			$1,658	$5,567	$410,964
FIRST FIDELITY	$245,046					$101,760	$346,806
HOME FEDERAL SAN DIEGO, CA		$376,231			$903	$316	$377,450
KISLAK MORTGAGE SERVICE CORP	$69,260	$85,932	$44,505		$126,305	$0	$326,002
KNUTSON MORTGAGE CORPORATION	$188,050	$375			$635	$2,138,317	$2,327,377
MIDLAND LOAN SERVICES, LP	$6,483	$242,427	$119,798		$1,193,718	$71,981	$1,634,407
RTC-BASIS	$121,150	$1,377		$82,190	$112,239	$31,620	$348,575
RTC-IN HOUSE		$334,834	$100	$20,314			$355,248
STRAIT-KUSHINSKY COMPANY				$285,028			$285,028
SUN COAST SAVINGS - HOLLYWOOD FL			$290,824				$290,824
SUN COAST SAVINGS - HOLLYWOOD, FL	$606		$324,299		$4,321	$378	$329,604
TEXAS DATA CONTROL			$2,230,490				$2,230,490
TRINITY FINANCIAL SERVICES		$251,164					$251,164
WENDOVER FUNDING	$377,200	$254,243		$67,575	$27,230	$25,763	$752,010
WENDOVER FUNDING GREENSBORO NC	$405,881	$76,847		$37,187		$292,186	$812,102
[illegible]	[illegible]	[illegible]	[illegible]	$2,518,923	[illegible]	$3,578,013	[illegible]

NOTES:

(1) Major Loan Servicers for purposes of this report are servicers who are servicing loan portfolios with an aggregate net book value of $250 million or more.
(2) Performing Loans are loans which are either delinquent for a period of 1-59 days or current with respect to payments.
(3) Non-Performing Loans are loans which are delinquent for a period of 60 or more days with respect to payments.
(4) Net Book Value = Gross Book Value less Participating Amount.

Contact	Sources	Worksheet	Printed
Richard Sassoon (703-908-7675)	CTM Statistical Information	w02.wk1	08-Feb-94 04:36 PM

RTC Receiverships

Report 4

Loan Servicing Portfolio Summary Report
Net Book Value by Major Loan Servicer
For the month ending December 1993

($ in thousands)

(Total portfolio sort)

[illegible]	ATLANTA	CALIFORNIA	DALLAS	DENVER	KANSAS CITY	VALLEY FORGE	TOTAL
EDS, META, WAC JV PARTNERSHIP	$1,649,174				$16,381	$908,395	$2,573,950
KNUTSON MORTGAGE CORPORATION	$188,050	$375			$635	$2,138,317	$2,327,377
TEXAS DATA CONTROL			$2,230,490				$2,230,490
MIDLAND LOAN SERVICES, LP	$6,483	$242,427	$119,798		$1,193,718	$71,981	$1,634,407
EQUITABLE REAL ESTATE	$952	$1,266,811	$22,784	$212,789			$1,503,336
ATLANTIC ASSET MANAGEMENT COMPANY	$1,398	$33,547		$1,358,698	$4,725		$1,398,368
EDS,META,WAC JV PARTNERSHIP	$978,691					$1,730	$980,421
WENDOVER FUNDING GREENSBORO NC	$405,881	$76,847		$37,187		$292,186	$812,102
WENDOVER FUNDING	$377,200	$254,243		$67,575	$27,230	$25,763	$752,010
ELECTRONIC PAYMENT SYSTEMS, INC.		$19,139		$455,142	$150		$474,431
EQUITABLE REAL ESTATE-ATLANTA GA	$253,142	$150,596			$1,658	$5,567	$410,964
HOME FEDERAL SAN DIEGO, CA		$376,231			$903	$316	$377,450
RTC-IN HOUSE		$334,834	$100	$20,314			$355,248
RTC-BASIS	$121,150	$1,377		$82,190	$112,239	$31,620	$348,575
FIRST FIDELITY	$245,046					$101,760	$346,806
SUN COAST SAVINGS - HOLLYWOOD, FL	$606		$324,299		$4,321	$378	$329,604
KISLAK MORTGAGE SERVICE CORP	$69,260	$85,932	$44,505		$126,305	$0	$326,002
SUN COAST SAVINGS - HOLLYWOOD FL			$290,824				$290,824
STRAIT-KUSHINSKY COMPANY				$285,028			$285,028
TRINITY FINANCIAL SERVICES		$251,164					$251,164
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NOTES:

(1) Major Loan Servicers for purposes of this report are servicers who are servicing loan portfolios with an aggregate net book value of $250 million or more.
(2) Performing Loans are loans which are either delinquent for a period of 1-59 days or current with respect to payments.
(3) Non-Performing Loans are loans which are delinquent for a period of 60 or more days with respect to payments.
(4) Net Book Value = Gross Book Value less Participating Amount.

Contact	Source	Worksheet	Printed
Richard Sasson (703-908-7675)	CTM Statistical information	w02.wk1	08-Feb-94 04:36 PM

Report 5

RTC Receiverships

Loan Servicing Portfolio Summary Report
Number of Loans by Major Loan Servicer
For the month ending December 1993

(Alpha sort)

	ATLANTA	CALIFORNIA	DALLAS	DENVER	KANSAS CITY	VALLEY FORGE	TOTAL
ATLANTIC ASSET MANAGEMENT COMPANY	2	2		1,412	27		1,443
EDS, META, WAC JV PARTNERSHIP	2,295				1	519	2,815
EDS,META,WAC JV PARTNERSHIP	1,487					1	1,488
ELECTRONIC PAYMENT SYSTEMS, INC.		1,633		2,882	42		4,557
EQUITABLE REAL ESTATE	1	1,324	3	298			1,626
EQUITABLE REAL ESTATE-ATLANTA GA	1	880			12	1	894
FIRST FIDELITY	608					194	802
HOME FEDERAL SAN DIEGO, CA		318			78	16	412
KISLAK MORTGAGE SERVICE CORP	4,760	22,308	1,415		10,083		38,566
KNUTSON MORTGAGE CORPORATION	133	1			10	11,579	11,723
MIDLAND LOAN SERVICES, LP	9	259	385		2,059	136	2,848
RTC-BASIS	309	13		146	491	237	1,196
RTC-IN HOUSE		11,421	4	15,452			26,877
STRAIT-KUSHINSKY COMPANY				117			117
SUN COAST SAVINGS - HOLLYWOOD FL			13,664				13,664
SUN COAST SAVINGS - HOLLYWOOD, FL	4		2,688		29	19	2,740
TEXAS DATA CONTROL			12,285				12,285
TRINITY FINANCIAL SERVICES		255					255
WENDOVER FUNDING	12,276	16,837		3,353	2,280	880	35,626
WENDOVER FUNDING GREENSBORO NC	13,206	4,863		1,097		11,679	30,845
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NOTES:

(1) Major Loan Servicers for purposes of this report are servicers who are servicing loan portfolios with an aggregate net book value of $250 million or more.
(2) Performing Loans are loans which are either delinquent for a period of 1-59 days or current with respect to payments.
(3) Non-Performing Loans are loans which are delinquent for a period of 60 or more days with respect to payments.
(4) Net Book Value = Gross Book Value less Participating Amount.

Contact	Source	Worksheet	Printed
Richard Sessoms (703-908-7675)	CTM Statistical information	w02.wk1	08-Feb-94 04:36 PM

Report 6

RTC Receiverships

Loan Servicing Portfolio Summary Report
Number of Loans by Major Loan Servicer
For the month ending December 1993

(Total portfolio sort)

MAJOR SERVICER	ATLANTA	CALIFORNIA	DALLAS	DENVER	KANSAS CITY	VALLEY FORGE	TOTAL
KISLAK MORTGAGE SERVICE CORP	4,760	22,308	1,415		10,083		38,566
WENDOVER FUNDING	12,276	16,837		3,353	2,280	880	35,626
WENDOVER FUNDING GREENSBORO NC	13,206	4,863		1,097		11,679	30,845
RTC-IN HOUSE		11,421	4	15,452			26,877
SUN COAST SAVINGS - HOLLYWOOD FL			13,664				13,664
TEXAS DATA CONTROL			12,285				12,285
KNUTSON MORTGAGE CORPORATION	133	1			10	11,579	11,723
ELECTRONIC PAYMENT SYSTEMS, INC.		1,633		2,882	42		4,557
MIDLAND LOAN SERVICES, LP	9	259	385		2,059	136	2,848
EDS, META, WAC JV PARTNERSHIP	2,295				1	519	2,815
SUN COAST SAVINGS - HOLLYWOOD, FL	4		2,688		29	19	2,740
EQUITABLE REAL ESTATE	1	1,324	3	298			1,626
EDS,META,WAC JV PARTNERSHIP	1,487					1	1,488
ATLANTIC ASSET MANAGEMENT COMPANY	2	2		1,412	27		1,443
RTC-BASIS	309	13		146	491	237	1,196
EQUITABLE REAL ESTATE-ATLANTA GA	1	880			12	1	894
FIRST FIDELITY	608					194	802
HOME FEDERAL SAN DIEGO, CA		318			78	16	412
TRINITY FINANCIAL SERVICES		255					255
STRAIT-KUSHINSKY COMPANY				117			117
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NOTES:

(1) Major Loan Servicers for purposes of this report are servicers who are servicing loan portfolios with an aggregate net book value of $250 million or more.
(2) Performing Loans are loans which are either delinquent for a period of 1-59 days or current with respect to payments.
(3) Non-Performing Loans are loans which are delinquent for a period of 60 or more days with respect to payments.
(4) Net Book Value = Gross Book Value less Participating Amount.

Contact	Source	Worksheet	Printed
Richard Sesson (703-908-7675)	CTM Statistical information	w02.wk1	08-Feb-94 04:36 PM

Report 7

RTC Receiverships

Loan Servicing Portfolio Summary Report

Net Book Value of Major Servicers by Servicer Tax ID and Servicer Name

For the month ending December 1993

($ in thousands)

Major Servicer	Atlanta	California	Dallas	Denver	Kansas City	Valley Forge	Total
Tax ID:411-25-1574							
KNUTSON MORTGAGE CORPORATION	$188,050	$375			$635	$2,138,317	$2,327,377
Totals for Tax ID:411-25-1574	$188,050	$375			$635	$2,138,317	$2,327,377
Tax ID:431-60-5515							
MDS LOAN SERVICES, LP	$1,043				$2,276	$1,395	$4,714
MIDLAND LOAN SERVICE, LP		$16			$222	$2,565	$2,804
MIDLAND LOAN SERVICES, LP	$6,483	$242,427	$119,798		$1,193,718	$71,981	$1,634,407
Totals for Tax ID:431-60-5515	$7,526	$242,444	$119,798		$1,196,217	$75,941	$1,641,925
Tax ID:520-82-3223							
AMERICA'S MORTGAGE					$21,911		$21,911
ATLANTIC ASSET MANAGEMENT				$110,119	$146		$110,264
STANDARD FEDERAL		$22,737					$22,737
STANDARD FEDERAL SAVINGS BANK	$8,803	$19,534	$107,413		$9,279	$6,594	$151,624
Totals for Tax ID:520-82-3223	$8,803	$42,271	$107,413	$110,119	$31,336	$6,594	$306,536
Tax ID:521-71-1007							
ATLANTIC ASSET MANAGEMENT COMPANY	$1,398	$33,547		$1,358,698	$4,725		$1,398,368
Totals for Tax ID:521-71-1007	$1,398	$33,547		$1,358,698	$4,725		$1,398,368
Tax ID:561-50-5554							
WENDOVER FUNDING	$377,200	$254,243		$67,575	$27,230	$25,763	$752,010
WENDOVER FUNDING GREENSBORO NC	$405,881	$76,847		$37,187		$292,186	$812,102
Totals for Tax ID:561-50-5554	$783,081	$331,090		$104,762	$27,230	$317,949	$1,564,112

RTC Receiverships

Report 7

Loan Servicing Portfolio Summary Report

Net Book Value of Major Servicers by Servicer Tax ID and Servicer Name

For the month ending December 1993

($ in thousands)

[illegible]	[illegible]	[illegible]	Dallas	Denver	Kansas City	Valley Forge	Total
Tax ID:581-57-1819							
EQUITABLE REAL ESTATE	$952	$1,266,811	$22,784	$212,789			$1,503,336
EQUITABLE REAL ESTATE-ATLANTA GA	$253,142	$150,596			$1,658	$5,567	$410,964
Totals for Tax ID:581-57-1819	$254,094	$1,417,407	$22,784	$212,789	$1,658	$5,567	$1,914,300
Tax ID:581-87-2402							
RTC-BASIS	$121,150	$1,377		$82,190	$112,239	$31,620	$348,575
Totals for Tax ID:581-87-2402	$121,150	$1,377		$82,190	$112,239	$31,620	$348,575
Tax ID:590-76-2940							
KISLAK MORTGAGE SERVICE CORP	$69,260	$85,932	$44,505		$126,305	$0	$326,002
Totals for Tax ID:590-76-2940	$69,260	$85,932	$44,505		$126,305	$0	$326,002
Tax ID:592-38-3531							
SUN COAST SAVINGS - HOLLYWOOD FL			$290,824				$290,824
SUN COAST SAVINGS - HOLLYWOOD, FL	$606		$324,299		$4,321	$378	$329,604
Totals for Tax ID:592-38-3531	$606		$615,123		$4,321	$378	$620,428
Tax ID:714-99-9999							
CONTINTENTAL FEDERAL - RTC - 7394					$12		$12
FIRST FIDELITY	$245,046					$101,760	$346,806
RTC - FIS FINANCIAL SYSTEM	$272						$272
WESTWOOD MORTGAGE COMPANY		$625					$625
Totals for Tax ID:714-99-9999	$245,318	$625			$12	$101,760	$347,715

RTC Receiverships

Report 7

Loan Servicing Portfolio Summary Report

Net Book Value of Major Servicers by Servicer Tax ID and Servicer Name

For the month ending December 1993

($ in thousands)

Major Servicer	Atlanta	California	Dallas	Denver	Kansas City	Valley Forge	Total
Tax ID:752-41-5442							
TEXAS DATA CONTROL			$2,230,490				$2,230,490
Totals for Tax ID:752-41-5442			$2,230,490				$2,230,490
Tax ID:752-42-6607							
EDS, META, WAC JV PARTNERSHIP	$1,649,174				$16,381	$908,395	$2,573,950
EDS,META,WAC JV PARTNERSHIP	$978,691					$1,730	$980,421
Totals for Tax ID:752-42-6607	$2,627,865				$16,381	$910,125	$3,554,372
Tax ID:841-06-8034							
STRAIT-KUSHINSKY COMPANY				$285,028			$285,028
Totals for Tax ID:841-06-8034				$285,028			$285,028
Tax ID:860-68-3322							
TRINITY FINANCIAL SERVICES		$251,164					$251,164
Totals for Tax ID:860-68-3322		$251,164					$251,164
Tax ID:870-46-0709							
ELECTRONIC PAYMENT SYSTEMS, INC.		$19,139		$455,142	$150		$474,431
Totals for Tax ID:870-46-0709		$19,139		$455,142	$150		$474,431
Tax ID:950-84-3340							
HOME FEDERAL BANK					$294		$294
HOME FEDERAL SAN DIEGO, CA		$376,231			$903	$316	$377,450
Totals for Tax ID:950-84-3340		$376,231			$1,198	$316	$377,744

RTC Receiverships

Report 7

Loan Servicing Portfolio Summary Report

Net Book Value of Major Servicers by Servicer Tax ID and Servicer Name

For the month ending December 1993

($ in thousands)

Major Servicer	Atlanta	California	Dallas	Denver	Kansas City	Valley Forge	Total
Tax ID:999-99-9966							
1992-C3 SEC SALE		$0					$0
FIDELITY NEW YORK						$2,220	$2,220
HALL & ASSOCIATES		$26,475					$26,475
JDS EQUIPMENT						$425	$425
JOHNSON MORTGAGE CO						$78	$78
KIDDER PEABODY						$342	$342
MERCURY FOR WESTPORT		($1,922)					($1,922)
OSGOOD MILLS						$2,458	$2,458
RTC FOR 1ST NETWORK		$13,085					$13,085
RTC-CORP. BANKING		$1,091					$1,091
RTC-IN HOUSE		$334,834	$100	$20,314			$355,248
RTC-IN HOUSE LSBO		$47,388		$433			$47,821
RTC-MANUAL	$35	$579		$76	$3		$692
ST. VINCENT HOSPITAL						$2	$2
Totals for Tax ID:999-99-9966	$35	$421,530	$100	$20,824	$3	$5,526	$448,016
[illegible]	$4,307,167	$3,223,132	$3,140,212	$2,629,352	$1,522,409	$3,594,092	$18,416,584

NOTES:
(1) Major Loan Servicers for purposes of this report are servicers having Tax ID's connected with loan portfolios with an aggregate net book value of $250 million or more.
(2) Performing Loans are loans which are either delinquent for a period of 1-59 days or current with respect to payments.
(3) Non-Performing Loans are loans which are delinquent for a period of 60 or more days with respect to payments.
(4) Net Book Value = Gross Book Value less Participating Amount.

Contact	Sources	Worksheet	Printed
Richard Sassoon 703-908-7675	CTM Statistical information	w03.wk1	08-Feb-94 08-Feb-94

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RTC Receiverships

Loan Servicing Portfolio Summary Report

Number of Loans of Major Servicers by Servicer Tax ID and Servicer Name

For the month ending December 1993

Major Servicer	Atlanta	California	Dallas	Denver	Kansas City	Valley Forge	Total
Tax ID:411-25-1574							
KNUTSON MORTGAGE CORPORATION	133	1			10	11,579	11,723
Totals for Tax ID:411-25-1574	133	1			10	11,579	11,723
Tax ID:431-60-5515							
MDS LOAN SERVICES, LP	1				10	1	12
MIDLAND LOAN SERVICE, LP		1			1	1	3
MIDLAND LOAN SERVICES, LP	9	259	385		2,059	136	2,848
Totals for Tax ID:431-60-5515	10	260	385		2,070	138	2,863
Tax ID:520-82-3223							
AMERICA'S MORTGAGE					790		790
ATLANTIC ASSET MANAGEMENT				79	2		81
STANDARD FEDERAL		447					447
STANDARD FEDERAL SAVINGS BANK	501	906	3,980		238	150	5,775
Totals for Tax ID:520-82-3223	501	1,353	3,980	79	1,030	150	7,093
Tax ID:521-71-1007							
ATLANTIC ASSET MANAGEMENT COMPANY	2	2		1,412	27		1,443
Totals for Tax ID:521-71-1007	2	2		1,412	27		1,443
Tax ID:561-50-5554							
WENDOVER FUNDING	12,276	16,837		3,353	2,280	880	35,626
WENDOVER FUNDING GREENSBORO NC	13,206	4,863		1,097		11,679	30,845
Totals for Tax ID:561-50-5554	25,482	21,700		4,450	2,280	12,559	66,471

RTC Receiverships

Report 8

Loan Servicing Portfolio Summary Report
Number of Loans of Major Servicers by Servicer Tax ID and Servicer Name
For the month ending December 1993

Major Servicer	Atlanta	California	Dallas	Denver	Kansas City	Valley Forge	Total
Tax ID:581-57-1819							
EQUITABLE REAL ESTATE	1	1,324	3	298			1,626
EQUITABLE REAL ESTATE-ATLANTA GA	1	880			12	1	894
Totals for Tax ID:581-57-1819	2	2,204	3	298	12	1	2,520
Tax ID:581-87-2402							
RTC-BASIS	309	13		146	491	237	1,196
Totals for Tax ID:581-87-2402	309	13		146	491	237	1,196
Tax ID:590-76-2940							
KISLAK MORTGAGE SERVICE CORP	4,760	22,308	1,415		10,083		38,566
Totals for Tax ID:590-76-2940	4,760	22,308	1,415		10,083		38,566
Tax ID:592-38-3531							
SUN COAST SAVINGS - HOLLYWOOD FL			13,664				13,664
SUN COAST SAVINGS - HOLLYWOOD, FL	4		2,688		29	19	2,740
Totals for Tax ID:592-38-3531	4		16,352		29	19	16,404
Tax ID:714-99-9999							
CONTINTENTAL FEDERAL - RTC - 7394					12		12
FIRST FIDELITY	608					194	802
RTC - FIS FINANCIAL SYSTEM	3						3
WESTWOOD MORTGAGE COMPANY		3					3
Totals for Tax ID:714-99-9999	611	3			12	194	820
flb							

Report 8

RTC Receiverships

Loan Servicing Portfolio Summary Report

Number of Loans of Major Servicers by Servicer Tax ID and Servicer Name

For the month ending December 1993

Major Servicer	Atlanta	California	Dallas	Denver	Kansas City	Valley Forge	Total
Tax ID:752-41-5442							
TEXAS DATA CONTROL			12,285				12,285
Totals for Tax ID:752-41-5442			12,285				12,285
Tax ID:752-42-6607							
EDS, META, WAC JV PARTNERSHIP	2,295				1	519	2,815
EDS,META,WAC JV PARTNERSHIP	1,487					1	1,488
Totals for Tax ID:752-42-6607	3,782				1	520	4,303
Tax ID:841-06-8034							
STRAIT-KUSHINSKY COMPANY				117			117
Totals for Tax ID:841-06-8034				117			117
Tax ID:860-68-3322							
TRINITY FINANCIAL SERVICES		255					255
Totals for Tax ID:860-68-3322		255					255
Tax ID:870-46-0709							
ELECTRONIC PAYMENT SYSTEMS, INC.		1,633		2,882	42		4,557
Totals for Tax ID:870-46-0709		1,633		2,882	42		4,557
Tax ID:950-84-3340							
HOME FEDERAL BANK					11		11
HOME FEDERAL SAN DIEGO, CA		318			78	16	412
Totals for Tax ID:950-84-3340		318			89	16	423

Report 8

RTC Receiverships

Loan Servicing Portfolio Summary Report

Number of Loans of Major Servicers by Servicer Tax ID and Servicer Name

For the month ending December 1993

Major Servicers	Atlanta	California	Dallas	Denver	Kansas City	Valley Forge	Total
Tax ID:999-99-9966							
1992-C3 SEC SALE		1					1
FIDELITY NEW YORK						1	1
HALL & ASSOCIATES		2					2
JDS EQUIPMENT						39	39
JOHNSON MORTGAGE CO						7	7
KIDDER PEABODY						17	17
MERCURY FOR WESTPORT		1					1
OSGOOD MILLS						1	1
RTC FOR 1ST NETWORK		10					10
RTC-CORP. BANKING		71					71
RTC-IN HOUSE		11,421	4	15,452			26,877
RTC-IN HOUSE LSBO		768		1			769
RTC-MANUAL	3			5	1		9
ST. VINCENT HOSPITAL						1	1
Totals for Tax ID:999-99-9966	3	12,274	4	15,458	1	66	27,806
Grand Total	35,599	62,324	34,424	24,842	16,177	25,479	198,845

NOTES:
(1) Major Loan Servicers for purposes of this report are servicers having Tax ID's connected with loan portfolios with an aggregate net book value of $250 million or more.
(2) Performing Loans are loans which are either delinquent for a period of 1-59 days or current with respect to payments.
(3) Non-Performing Loans are loans which are delinquent for a period of 60 or more days with respect to payments.
(4) Net Book Value = Gross Book Value less Participating Amount.

Contact	Source	Worksheet	Printed
Richard Sasson 703-908-7675	CTM Statistical information	w03.wk1	08-Feb-94 05:17 PM

RTC Receiverships

Report 9

Loan Servicing Portfolio Summary Report

Net Book Value by Major Loan Servicer

For month ending December 1993

($ in thousands)

MAJOR LOAN SERVICER	ATLANTA	CALIFORNIA	DALLAS	DENVER	KANSAS CITY	VALLEY FORGE	TOTAL
1–4 Family Residential Mortgages							
ATLANTIC ASSET MANAGEMENT COMPANY	$1,398			$42,960	$312		$44,671
EDS, META, WAC JV PARTNERSHIP	$48,389					$8,357	$56,747
EDS,META,WAC JV PARTNERSHIP	$37,296						$37,296
ELECTRONIC PAYMENT SYSTEMS, INC.		$3,609		$22,659	$145		$26,412
EQUITABLE REAL ESTATE		$8,490		$1,389			$9,880
EQUITABLE REAL ESTATE – ATLANTA GA					$18	$5,567	$5,586
FIRST FIDELITY	$1,853					$236	$2,089
HOME FEDERAL SAN DIEGO, CA		$1,826			$903	$316	$3,045
KISLAK MORTGAGE SERVICE CORP	$68,146	$85,932	$44,505		$126,305	$0	$324,887
KNUTSON MORTGAGE CORPORATION	$123,780				$635	$247,920	$372,335
MIDLAND LOAN SERVICES, LP	$1,465	$954	$863		$14,678	$235	$18,195
RTC–BASIS	$5,527	$240		$1,762	$21,145	$450	$29,124
RTC–IN HOUSE		$70,929	$100	$10,414			$81,443
STRAIT–KUSHINSKY COMPANY				$7,998			$7,998
SUN COAST SAVINGS – HOLLYWOOD FL			$150,026				$150,026
SUN COAST SAVINGS – HOLLYWOOD, FL	$326		$48,418		$560	$378	$49,682
TEXAS DATA CONTROL			$104,123				$104,123
TRINITY FINANCIAL SERVICES		$3,725					$3,725
WENDOVER FUNDING	$301,262	$233,499		$53,678	$15,176	$25,677	$629,291
WENDOVER FUNDING GREENSBORO NC	$390,452	$76,662		$37,187		$219,616	$723,917
Totals for 1–4 Family Residential Mortgages	$979,893	$485,865	$348,035	$178,048	$179,878	$508,753	$2,680,471

Report 9

RTC Receiverships

Loan Servicing Portfolio Summary Report

Net Book Value by Major Loan Servicer

For month ending December 1993

($ in thousands)

[illegible]	[illegible]	[illegible]	DALLAS	DENVER	KANSAS CITY	VALLEY FORGE	TOTAL
Commercial Loans							
ATLANTIC ASSET MANAGEMENT COMPANY				$135,588			$135,588
EDS, META, WAC JV PARTNERSHIP	$437,572					$109,191	$546,763
EDS,META,WAC JV PARTNERSHIP	$239,972					$1,730	$241,702
ELECTRONIC PAYMENT SYSTEMS, INC.		$1,502		$66,339			$67,841
EQUITABLE REAL ESTATE		$47,435		$1,424			$48,858
EQUITABLE REAL ESTATE–ATLANTA GA	$253,142						$253,142
FIRST FIDELITY	$105					$1,781	$1,886
HOME FEDERAL SAN DIEGO, CA		$44,429					$44,429
KNUTSON MORTGAGE CORPORATION						$345,064	$345,064
MIDLAND LOAN SERVICES, LP		$4,328	$16,023		$272,426	$12,997	$305,774
RTC–BASIS	$23,640	$9		$34,507	$22,845	$3,320	$84,322
RTC–IN HOUSE		$68,350		$1,811			$70,161
STRAIT–KUSHINSKY COMPANY				$67,882			$67,882
SUN COAST SAVINGS – HOLLYWOOD FL			$2,949				$2,949
SUN COAST SAVINGS – HOLLYWOOD, FL			$3,171				$3,171
TEXAS DATA CONTROL			$377,502				$377,502
TRINITY FINANCIAL SERVICES		$16,495					$16,495
WENDOVER FUNDING	$2,304			$450			$2,754
WENDOVER FUNDING GREENSBORO NC						$46,397	$46,397
Totals for Commercial Loans	**$956,734**	**$182,548**	**$399,645**	**$308,002**	**$295,270**	**$520,479**	**$2,662,679**

Report 9

RTC Receiverships

Loan Servicing Portfolio Summary Report
Net Book Value by Major Loan Servicer
For month ending December 1993

($ in thousands)

MAJOR LOAN SERVICER(S)	ATLANTA	CALIFORNIA	DALLAS	DENVER	KANSAS CITY	VALLEY FORGE	TOTAL
Commercial Mortgages							
ATLANTIC ASSET MANAGEMENT COMPANY		$33,547		$1,180,037	$4,413		$1,217,997
EDS, META, WAC JV PARTNERSHIP	$1,159,991				$16,381	$782,429	$1,958,801
EDS,META,WAC JV PARTNERSHIP	$700,057						$700,057
ELECTRONIC PAYMENT SYSTEMS, INC.		$1,338		$349,212			$350,550
EQUITABLE REAL ESTATE	$952	$1,210,886	$22,784	$209,835			$1,444,457
EQUITABLE REAL ESTATE–ATLANTA GA		$150,596			$1,640		$152,236
FIRST FIDELITY	$243,088					$99,744	$342,832
HOME FEDERAL SAN DIEGO, CA		$326,936					$326,936
KISLAK MORTGAGE SERVICE CORP	$1,115						$1,115
KNUTSON MORTGAGE CORPORATION	$64,270	$375				$1,541,551	$1,606,197
MIDLAND LOAN SERVICES, LP	$5,018	$237,145	$102,622		$905,593	$57,895	$1,308,273
RTC–BASIS	$91,265	$495		$44,649	$66,736	$24,371	$227,517
RTC–IN HOUSE		$191,500		$7,555			$199,055
STRAIT–KUSHINSKY COMPANY				$209,148			$209,148
SUN COAST SAVINGS – HOLLYWOOD FL			$134,236				$134,236
SUN COAST SAVINGS – HOLLYWOOD, FL	$281		$272,710		$3,760		$276,751
TEXAS DATA CONTROL			$1,667,684				$1,667,684
TRINITY FINANCIAL SERVICES		$230,944					$230,944
WENDOVER FUNDING	$72,861	$20,744		$13,330	$520	$86	$107,540
WENDOVER FUNDING GREENSBORO NC	$2,353	$185				$15,676	$18,214
Totals for Commercial Mortgages	$2,341,251	$2,404,691	$2,200,035	$2,013,767	$999,043	$2,521,753	$12,480,540

RTC Receiverships

Report 9

Loan Servicing Portfolio Summary Report
Net Book Value by Major Loan Servicer
For month ending December 1993
($ in thousands)

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	KANSAS [illegible]	VALLEY [illegible]	TOTAL
Consumer Loans							
ATLANTIC ASSET MANAGEMENT COMPANY				$112			$112
EDS, META, WAC JV PARTNERSHIP	$3,223					$8,418	$11,640
EDS,META,WAC JV PARTNERSHIP	$1,365						$1,365
ELECTRONIC PAYMENT SYSTEMS, INC		$12,690		$16,932	$5		$29,628
EQUITABLE REAL ESTATE				$140			$140
HOME FEDERAL SAN DIEGO, CA		$3,040					$3,040
KNUTSON MORTGAGE CORPORATION						$3,781	$3,781
MIDLAND LOAN SERVICES, LP			$290		$1,021	$855	$2,165
RTC-BASIS	$718	$633		$1,271	$1,513	$3,478	$7,613
RTC-IN HOUSE		$4,056	$0	$533			$4,589
SUN COAST SAVINGS - HOLLYWOOD FL			$3,613				$3,613
TEXAS DATA CONTROL			$81,181				$81,181
WENDOVER FUNDING	$773			$118	$11,534		$12,425
WENDOVER FUNDING GREENSBORO NC	$13,077					$10,498	$23,574
Totals for Consumer Loans	**$19,156**	**$20,419**	**$85,084**	**$19,107**	**$14,074**	**$27,028**	**$184,867**
Grand Totals	**$4,297,034**	**$3,093,524**	**$3,032,799**	**$2,518,925**	**$1,488,265**	**$3,578,013**	**$18,008,558**

NOTES:
(1) Net Book Value = Gross Book Value less Participating Amount.
(2) Major Loans Servicers for purposes of this report are servicers who are servicing loan portfolios with an aggregate net book value of $250 million or more.

Contact	Sources	Worksheet	Printed
Richard Samson (703-908-7675)	CTM Statistical Information	m04.wk1	09-Feb-94 10:16 AM

RTC Receiverships Report 10

Loan Servicing Portfolio Summary Report
Number of Loans by Major Loan Servicer
For month ending December 1993

MAJOR LOAN SERVICER	ATLANTA	CALIFORNIA	DALLAS	DENVER	KANSAS CITY	VALLEY FORGE	TOTAL
1–4 Family Residential Mortgages							
ATLANTIC ASSET MANAGEMENT COMPANY	2			242	16		260
EDS, META, WAC JV PARTNERSHIP	261					33	294
EDS,META,WAC JV PARTNERSHIP	95						95
ELECTRONIC PAYMENT SYSTEMS, INC.		140		322	40		502
EQUITABLE REAL ESTATE		104		7			111
EQUITABLE REAL ESTATE–ATLANTA GA					4	1	5
FIRST FIDELITY	31					2	33
HOME FEDERAL SAN DIEGO, CA		5			78	16	99
KISLAK MORTGAGE SERVICE CORP	4,758	22,308	1,415		10,083		38,564
KNUTSON MORTGAGE CORPORATION	40				10	6,899	6,949
MIDLAND LOAN SERVICES, LP	3	1	11		139	2	156
RTC–BASIS	152	1		32	190	30	405
RTC–IN HOUSE		10,522	1	15,198			25,721
STRAIT–KUSHINSKY COMPANY				5			5
SUN COAST SAVINGS – HOLLYWOOD FL			12,334				12,334
SUN COAST SAVINGS – HOLLYWOOD, FL	3		2,182		24	19	2,228
TEXAS DATA CONTROL			2,248				2,248
TRINITY FINANCIAL SERVICES		6					6
WENDOVER FUNDING	11,782	16,618		3,296	286	878	32,860
WENDOVER FUNDING GREENSBORO NC	12,334	4,862		1,097		11,437	29,730
Totals for 1–4 Family Residential Mortgages	**29,461**	**54,567**	**18,191**	**20,199**	**10,870**	**19,317**	**152,605**

Report 10

RTC Receiverships
Loan Servicing Portfolio Summary Report
Number of Loans by Major Loan Servicer
For month ending December 1993

MAJOR LOAN SERVICER (2)	ATLANTA	CALIFORNIA	DALLAS	DENVER	KANSAS CITY	VALLEY FORGE	TOTAL
Commercial Loans							
ATLANTIC ASSET MANAGEMENT COMPANY				132			132
EDS, META, WAC JV PARTNERSHIP	844					78	922
EDS,META,WAC JV PARTNERSHIP	555					1	556
ELECTRONIC PAYMENT SYSTEMS, INC.		14		137			151
EQUITABLE REAL ESTATE		76		17			93
EQUITABLE REAL ESTATE–ATLANTA GA	1						1
FIRST FIDELITY	2					7	9
HOME FEDERAL SAN DIEGO, CA		38					38
KNUTSON MORTGAGE CORPORATION						916	916
MIDLAND LOAN SERVICES, LP		22	35		317	50	424
RTC–BASIS	43	1		20	55	125	244
RTC–IN HOUSE		14					14
STRAIT–KUSHINSKY COMPANY				16			16
SUN COAST SAVINGS – HOLLYWOOD FL			16				16
SUN COAST SAVINGS – HOLLYWOOD, FL			1				1
TEXAS DATA CONTROL			1,011				1,011
TRINITY FINANCIAL SERVICES		27					27
WENDOVER FUNDING	65			1			66
WENDOVER FUNDING GREENSBORO NC						110	110
Totals for Commercial Loans	1,510	192	1,063	323	372	1,287	4,747

Report 10

RTC Receiverships

Loan Servicing Portfolio Summary Report
Number of Loans by Major Loan Servicer
For month ending December 1993

[illegible]	[illegible]	[illegible]	DALLAS	DENVER	KANSAS CITY	VALLEY FORGE	TOTAL
Commercial Mortgages							
ATLANTIC ASSET MANAGEMENT COMPANY		2		1,036	11		1,049
EDS, META, WAC JV PARTNERSHIP	1,127				1	391	1,519
EDS,META,WAC JV PARTNERSHIP	798						798
ELECTRONIC PAYMENT SYSTEMS, INC		87		451			538
EQUITABLE REAL ESTATE	1	1,144	3	272			1,420
EQUITABLE REAL ESTATE–ATLANTA GA		880			8		888
FIRST FIDELITY	575					185	760
HOME FEDERAL SAN DIEGO, CA		53					53
KISLAK MORTGAGE SERVICE CORP	2						2
KNUTSON MORTGAGE CORPORATION	93	1				3,378	3,472
MIDLAND LOAN SERVICES, LP	6	236	333		1,597	72	2,244
RTC–BASIS	55	4		61	164	20	304
RTC–IN HOUSE		671		161			832
STRAIT–KUSHINSKY COMPANY				96			96
SUN COAST SAVINGS – HOLLYWOOD FL			683				683
SUN COAST SAVINGS – HOLLYWOOD, FL	1		505		5		511
TEXAS DATA CONTROL			3,168				3,168
TRINITY FINANCIAL SERVICES		222					222
WENDOVER FUNDING	215	219		49	1	2	486
WENDOVER FUNDING GREENSBORO NC	115	1				35	151
Totals for Commercial Mortgages	**2,988**	**3,520**	**4,692**	**2,126**	**1,787**	**4,083**	**19,196**

RTC Receiverships

Loan Servicing Portfolio Summary Report
Number of Loans by Major Loan Servicer
For month ending December 1993

Report 10

MAJOR LOAN SERVICER (1)	ATLANTA	CALIFORNIA	DALLAS	DENVER	KANSAS CITY	VALLEY FORGE	TOTAL
Consumer Loans							
ATLANTIC ASSET MANAGEMENT COMPANY				2			2
EDS, META, WAC JV PARTNERSHIP	63					17	80
EDS,META,WAC JV PARTNERSHIP	39						39
ELECTRONIC PAYMENT SYSTEMS, INC.		1,392		1,972	2		3,366
EQUITABLE REAL ESTATE				2			2
HOME FEDERAL SAN DIEGO, CA		222					222
KNUTSON MORTGAGE CORPORATION						386	386
MIDLAND LOAN SERVICES, LP			6		6	12	24
RTC–BASIS	59	7		33	82	62	243
RTC–IN HOUSE		214	3	93			310
SUN COAST SAVINGS – HOLLYWOOD FL			631				631
TEXAS DATA CONTROL			5,858				5,858
WENDOVER FUNDING	214			7	1,993		2,214
WENDOVER FUNDING GREENSBORO NC	757					97	854
Totals for Consumer Loans	1,132	1,835	6,498	2,109	2,083	574	14,231
Grand Totals	35,091	60,114	30,444	24,757	15,112	25,261	190,779

NOTES:
(1) Major Loans Servicers for purposes of this report are servicers who are servicing loan portfolios with an aggregate net book value of $250 million or more.

Contact	Sources	Worksheet	Printed
Richard Sassoon (703–908–7675)	CTM Statistical Information	w04.wk1	09–Feb–94 10:16 AM

Report 11

RTC Receiverships
Loan Portfolio Status Report for Major Loan Servicers
By Major Loan Servicer (1)
For the month ending December 1993
($ in thousands)

	Performing Loans		Non-performing Loans		All Loans	
Loan Type(2)	Number of Loans	Net Book Value(1)	Number of Loans	Net Book Value(1)	Number of Loans	Net Book Value(1)
1-4 Residential Seller Financing	124,859	$1,668,499	24,608	$909,101	149,467	$2,577,599
M-F Residential Seller Financing	1,809	$703,280	1,515	$1,696,207	3,324	$2,399,487
Commercial Mortgage Seller Financing	7,186	$2,135,706	7,653	$6,967,904	14,839	$9,103,610
Total Seller Financing	133,854	$4,507,485	33,776	$9,573,211	167,630	$14,080,696
1-4 Residential Mortgage	2,855	$84,840	283	$18,032	3,138	$102,872
M-F Residential Mortgage	215	$316,389	10	$4,084	225	$320,473
Commercial Mortgage	727	$580,155	81	$76,816	808	$656,971
Total Mortgages	3,797	$981,384	374	$98,932	4,171	$1,080,316
Commercial Loans	1,304	$808,374	3,443	$1,854,305	4,747	$2,662,679
Installment Loans	6,239	$58,820	5,731	$121,164	11,970	$179,984
Student Loans	211	$887	2,050	$3,996	2,261	$4,883
Total Consumer Loans	6,450	$59,707	7,781	$125,160	14,231	$184,867
Grand Total	145,405	$6,356,950	45,374	$11,651,608	190,779	$18,008,558

(1) Net Book Value = Gross Book Value less Participating Amount.
(2) Major Loans Servicers for purposes of this report are servicers who are servicing loan portfolios with an aggregate net book value of $250 million or more.

Contact	Sources	Worksheet	Printed	
Richard Sassoon (703-908-7675)	CTM Statistical Information	w05.wk1	09-Feb-94	11:01 AM

Report 12

RTC Receiverships

Loan Portfolio Status Report for Major Loan Servicers
By Major Loan Servicer (1)
For the month ending December 1993

($ in thousands)

Major Loan Servicer	Performing Loans (2)		Non-performing Loans		All Loans	
	Number of Loans	Net Book Value (3)	Number of Loans	Net Book Value (3)	Number of Loans	Net Book Value (3)
1–4 Family Residential Mortgages						
ATLANTIC ASSET MANAGEMENT COMPANY	218	$8	42	$36	260	$45
EDS, META, WAC JV PARTNERSHIP	32	$3	262	$54	294	$57
EDS,META,WAC JV PARTNERSHIP	12	$3	83	$34	95	$37
ELECTRONIC PAYMENT SYSTEMS, INC.	155	$4	347	$22	502	$26
EQUITABLE REAL ESTATE	105	$9	6	$0	111	$10
EQUITABLE REAL ESTATE–ATLANTA GA	5	$6			5	$6
FIRST FIDELITY	18	$1	15	$1	33	$2
HOME FEDERAL SAN DIEGO, CA	96	$2	3	$2	99	$3
KISLAK MORTGAGE SERVICE CORP	37,184	$290	1,380	$35	38,564	$325
KNUTSON MORTGAGE CORPORATION	6,180	$201	769	$171	6,949	$372
MIDLAND LOAN SERVICES, LP	72	$5	84	$13	156	$18
RTC–BASIS	247	$25	158	$4	405	$29
RTC–IN HOUSE	15,195	$2	10,526	$80	25,721	$81
STRAIT–KUSHINSKY COMPANY	4	$0	1	$8	5	$8
SUN COAST SAVINGS – HOLLYWOOD FL	11,165	$136	1,169	$14	12,334	$150
SUN COAST SAVINGS – HOLLYWOOD, FL	2,176	$48	52	$2	2,228	$50
TEXAS DATA CONTROL	1,214	$33	1,034	$71	2,248	$104
TRINITY FINANCIAL SERVICES	2	$0	4	$4	6	$4
WENDOVER FUNDING	29,499	$505	3,361	$125	32,860	$629
WENDOVER FUNDING GREENSBORO NC	24,135	$471	5,595	$253	29,730	$724
Totals for 1–4 Family Residential Mortgages	127,714	$1,753	24,891	$927	152,605	$2,680

Report 12

RTC Receiverships

Loan Portfolio Status Report for Major Loan Servicers

By Major Loan Servicer (1)

For the month ending December 1993

($ in thousands)

Major Loan Servicer	Performing Loans (		Non-performing Loa		All Loans	
	Number of Loans	Net Book Value (4)	Number of Loans	Net Book Value (4)	Number of Loans	Net Book Value (4)
Commercial Loans						
ATLANTIC ASSET MANAGEMENT COMPANY	13	$7	119	$129	132	$136
EDS, META, WAC JV PARTNERSHIP	144	$49	778	$498	922	$547
EDS,META,WAC JV PARTNERSHIP	45	$3	511	$239	556	$242
ELECTRONIC PAYMENT SYSTEMS, INC.	19	$2	132	$66	151	$68
EQUITABLE REAL ESTATE	36	$9	57	$40	93	$49
EQUITABLE REAL ESTATE–ATLANTA GA	1	$253			1	$253
FIRST FIDELITY	6	$0	3	$2	9	$2
HOME FEDERAL SAN DIEGO, CA	20	$32	18	$12	38	$44
KNUTSON MORTGAGE CORPORATION	370	$83	546	$262	916	$345
MIDLAND LOAN SERVICES, LP	135	$41	289	$265	424	$306
RTC–BASIS	171	$59	73	$25	244	$84
RTC–IN HOUSE	3	$68	11	$3	14	$70
STRAIT–KUSHINSKY COMPANY	6	$11	10	$57	16	$68
SUN COAST SAVINGS – HOLLYWOOD FL	12	$2	4	$1	16	$3
SUN COAST SAVINGS – HOLLYWOOD, FL	1	$3			1	$3
TEXAS DATA CONTROL	151	$139	860	$239	1,011	$378
TRINITY FINANCIAL SERVICES	3	$0	24	$16	27	$16
WENDOVER FUNDING	59	$2	7	$1	66	$3
WENDOVER FUNDING GREENSBORO NC	109	$46	1	$1	110	$46
Totals for Commercial Loans	1,304	$808	3,443	$1,854	4,747	$2,663

Report 12

RTC Receiverships

Loan Portfolio Status Report for Major Loan Servicers

By Major Loan Servicer (1)

For the month ending December 1993

($ in thousands)

Major Loan Servicer	Performing Loans (2)		Non-performing		All Loans	
	Number of Loans	Net Book Value (3)	Number of Loans	Net Book Value (3)	Number of Loans	Net Book Value (3)
Commercial Mortgages						
ATLANTIC ASSET MANAGEMENT COMPANY	472	$126	577	$1,092	1,049	$1,218
EDS, META, WAC JV PARTNERSHIP	227	$230	1,292	$1,729	1,519	$1,959
EDS,META,WAC JV PARTNERSHIP	37	$35	761	$665	798	$700
ELECTRONIC PAYMENT SYSTEMS, INC.	183	$26	355	$324	538	$351
EQUITABLE REAL ESTATE	954	$718	466	$726	1,420	$1,444
EQUITABLE REAL ESTATE–ATLANTA GA	822	$106	66	$46	888	$152
FIRST FIDELITY	641	$282	119	$61	760	$343
HOME FEDERAL SAN DIEGO, CA	9	$68	44	$259	53	$327
KISLAK MORTGAGE SERVICE CORP	2	$1			2	$1
KNUTSON MORTGAGE CORPORATION	1,806	$634	1,666	$973	3,472	$1,606
MIDLAND LOAN SERVICES, LP	1,262	$425	982	$883	2,244	$1,308
RTC–BASIS	220	$144	84	$84	304	$228
RTC–IN HOUSE	428	$11	404	$188	832	$199
STRAIT–KUSHINSKY COMPANY	65	$2	31	$207	96	$209
SUN COAST SAVINGS – HOLLYWOOD FL	594	$118	89	$16	683	$134
SUN COAST SAVINGS – HOLLYWOOD, FL	501	$271	10	$6	511	$277
TEXAS DATA CONTROL	1,291	$332	1,877	$1,336	3,168	$1,668
TRINITY FINANCIAL SERVICES	150	$131	72	$100	222	$231
WENDOVER FUNDING	240	$67	246	$41	486	$108
WENDOVER FUNDING GREENSBORO NC	33	$9	118	$9	151	$18
Totals for Commercial Mortgages	9,937	$3,736	9,259	$8,745	19,196	$12,481

Report 12

RTC Receiverships

Loan Portfolio Status Report for Major Loan Servicers

By Major Loan Servicer (1)

For the month ending December 1993

($ in thousands)

Major Loan Servicer	Performing Loans (2)		Non-performing Loans (3)		All Loans	
	Number of Loans	Net Book Value (4)	Number of Loans	Net Book Value (4)	Number of Loans	Net Book Value (4)
Consumer Loans						
ATLANTIC ASSET MANAGEMENT COMPANY			2	$0	2	$0
EDS, META, WAC JV PARTNERSHIP	1	$1	79	$11	80	$12
EDS,META,WAC JV PARTNERSHIP	8	$0	31	$1	39	$1
ELECTRONIC PAYMENT SYSTEMS, INC.	1,751	$11	1,615	$19	3,366	$30
EQUITABLE REAL ESTATE	1	$0	1	$0	2	$0
HOME FEDERAL SAN DIEGO, CA	151	$2	71	$1	222	$3
KNUTSON MORTGAGE CORPORATION	262	$2	124	$2	386	$4
MIDLAND LOAN SERVICES, LP	7	$0	17	$2	24	$2
RTC-BASIS	84	$3	159	$5	243	$8
RTC-IN HOUSE	293	$4	17	$0	310	$5
SUN COAST SAVINGS - HOLLYWOOD FL	511	$3	120	$1	631	$4
TEXAS DATA CONTROL	1,001	$11	4,857	$70	5,858	$81
WENDOVER FUNDING	2,007	$12	207	$1	2,214	$12
WENDOVER FUNDING GREENSBORO NC	373	$11	481	$13	854	$24
Totals for Consumer Loans	6,450	$60	7,781	$125	14,231	$185
Grand totals	145,405	$6,357	45,374	$11,652	190,779	$18,009

(1) Major Loan Servicers for purposes of this report are servicers who are servicing loan portfolios with an aggregate net book value of $250 million or more.
(2) Performing Loans are loans which are either delinquent for a period of 1-59 days or current with respect to payments.
(3) Non-Performing Loans are loans which are delinquent for a period of 60 or more days with respect to payments.
(4) Net Book Value = Gross Book Value less Participating Amount.

Contact	Source	Worksheet	Printed
Richard Sassoon (703-908-7675)	CTM Statistical information	w06.wk1	09-Feb-94 03:03 PM

Attachment

Supplemental Notes

1. Negative Book Values

For the preparation of these reports, those Control Totals in CTM which had negative Net Book Values were excluded. The reasons for the existence of these negative values are:

A. Sales transactions were recorded on RTC's books (both in terms of number of loans as well as book values) prior to having been recorded on the Servicer records, thus creating a negative value when servicer information is finally received and entered into RTC's books. This is most likely to happen as a result of National Sales Initiatives whereby RTC Accounting records the asset sales transactions using the information taken from the "Closing Spreadsheet". In some cases, the closing spreadsheet shows more assets being removed than what is on the Servicer system of record, thus creating the negative value.

B. A CTM user may have recorded a transaction to the wrong control total.

C. When FIN information was first entered into CTM during initial conversion to the system, wrong asset counts/asset balances may have been entered.

2. Definitions of Selected Servicers

- **RTC Basis (#1425):** represents Basis 310 assets serviced internally by the RTC.

- **RTC Corp. Banking (#3271):** represents the system used for loans serviced at two sites; Gibralter and Imperial.

- **RTC DLS100 (#3466):** separate loan system utilized by Gibralter FS & LA.

- **RTC REOMS (#1454):** separate system used to track real estate owned and maintained by the RTC.

- **RTC ROC (BMIS):** BMIS is a valid servicer; the RTC prefix will be deleted.

- **RTC ROC (IFS):** IFS is a valid servicer; the RTC prefix will be deleted.

- **RTC San Jacinto SA:** Subsidiary of San Jacinto FS & LA; separate books are kept and therefore require a separate control total.
- **RTC Basis:** Used for Basis 310 assets serviced internally by the RTC.
- **RTC Corp Banking:** used for loans serviced by Imperial and Gibralter.
- **RTC EROC CLCS:** Loan system utilized by City Savings.
- **RTC IBS:** Loan system utilized by Gibralter.
- **RTC In House:** Loans serviced by the given Megasite or Field Office.
- **RTC In House LSBO:** LSBO balances maintained and remitted through the site.

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